



# WORLD NEWS

## EUROPE

### France proposes forex stability plan

By Peter Norman in Brussels

France yesterday proposed a three-point system of "enhanced co-operation" within the Group of Seven leading industrial countries to promote greater exchange rate stability between the dollar, the euro and yen.

At a meeting of finance ministers from the euro 11 countries, Dominique Strauss-Kahn, French finance minister, said the plan, which would involve closer surveillance of exchange rates, especially the dollar-

euro rate. He also called for strengthened co-operation "on macro-economic policies and the responses to shocks to the world economy within the framework of a global policy mix", and a "framework for monetary relations with emerging countries".

Arguing it was time "to take the next step" after the creation of the euro, Mr Strauss-Kahn said the G7, by adopting a "more preventative approach", could ensure a "satisfactory degree of exchange rate stability between the dollar, euro and

yen". Europe was now a "world macro-economic player on an equal footing to the US," the French minister said. "We must act together with the US and Japan to assert our rejection of any form of reciprocal benign neglect [of exchange rates] and to establish an enhanced co-operation system."

Under his proposal, the surveillance of exchange rates would be based on a periodic assessment of the levels and changes of exchange rates by the International Monetary Fund,

which would form its views with reference to economic fundamentals and cyclical developments in the economies concerned.

Although Mr Strauss-Kahn's plan avoided any reference to target zones for currencies, he said the G7 and IMF should assess its operation after a few years with a view to further measures. Looking ahead to this month's G7 meeting in Bonn, he said the plan would constitute immediate and tangible progress to establishing new rules for

the world economy.

Oskar Lafontaine, the German finance minister who chaired yesterday's euro 11 meeting, said not all members of the group had a chance to comment on the French scheme. Greater exchange rates stability would depend on an economic convergence, he said. But Europe had "excellent experiences" with economic co-operation.

In an example of European Union economic policy coordination, finance ministers from the 15 nations yesterday

gave qualified backing to Italy's programme for budgetary stability, which was criticised by the European Commission last week.

Meeting in the "Ecofin" council, they welcomed Italian commitments to take additional measures to meet its target deficit of 1 per cent of gross domestic product in 2001, if necessary. However, the ministers recommended a lower target to accelerate the reduction of Italy's debt in relation to GDP, and urged Rome to speed up its privatisation plans.

### NEWS DIGEST

#### COMMISSIONERS SPEAK OUT

### Prodi suffers setback in European Commission bid

Romano Prodi's hopes of succeeding to the presidency of the European Commission suffered a setback yesterday when leading Italian figures said the former prime minister had damaged his chances by launching a comeback in domestic politics.

Lamberto Dini, foreign minister, and Emma Bonino, one of Italy's European Union commissioners, both said Prodi's chances had dimmed after his launch of a political party at the end of last week.

Mr Dini said that Mr Prodi had created a party "whiggish" to the other parties of the Italian centre-left, adding this "clearly reduces - if not cancels out - his chances of becoming president of the European Commission".

Ms Bonino said that Mr Prodi's candidacy for the post had "pretty much failed". She said that if an individual wanted a job of that kind, "it's better that they behave or operate in a different way".

Mr Prodi has made no secret that he would like to be considered to replace Jacques Santer as Commission president when Mr Santer's mandate expires at the end of this year. Mr Prodi says his aim is not incompatible with pursuing domestic ambitions and his creation of a new party, Democrats for the Olive Tree. James Fitz, Rome

#### NATO NUCLEAR STRATEGY

### US sees accord with Bonn

William Cohen, the US defence secretary, said yesterday that the US had ironed out differences with Germany's centre-left government over NATO's nuclear strategy.

Mr Cohen said he was sure after an annual security conference in Munich last weekend that Chancellor Gerhard Schröder's "red-green" coalition government wanted a full role in the North Atlantic alliance. "I left Munich with a great sense of optimism, not only about NATO but also Germany's role within NATO," Mr Cohen said after meeting Rudolf Scharping, the German defence minister, in Bonn.

Relations were strained last autumn after the Greens, the minority partner in Mr Schröder's government, questioned whether NATO should still rely on the first use of nuclear weapons.

Mr Schröder said in Munich he would continue to push the idea of "no first use" ahead of NATO's 50th anniversary summit in April. But Mr Scharping conceded this had little chance of becoming NATO policy. Reuters, Bonn

#### POLISH AGRICULTURE

### Farmers sign deal on prices

Polish farmers' protests appeared to be petering out yesterday after leaders of two of the country's three farming organisations signed an agreement with the government, guaranteeing higher pork prices and immunity for farmers who have been blocking roads for the past two weeks.

Andrzej Lepper, the leader of the third group, the militant Self Defence farmers union, refused to accept the deal, which adds 20 per cent to the present pork price of 2.60 zlotys (70 cents) per kilo.

"This agreement has been acknowledged by us, but not signed by us... it is good only for the waste paper basket," he said. "It does not fulfil a single condition we put forward."

The government has also said it would act to increase dairy prices. Mr Lepper called on his supporters to put up new road blocks but the appeal was heeded in no more than a dozen places. Christopher Bobinski, Warsaw

#### EUROPEAN PARLIAMENT

### Soares may seek presidency

Mário Soares, Portugal's leading elder statesman, is expected to become a candidate for the presidency of the European Parliament after agreeing to stand as the main candidate for his country's Socialist party in the European election in June.

Mr Soares, 74, a former prime minister and president of Portugal from 1985 to 1995, is a committed federalist who believes in a "United States of Europe". He said he had accepted the invitation of António Guterres, Portugal's Socialist prime minister, to stand in the election to defend "the need to build a political and social Europe to complete the economic and monetary union that already exists".

Mr Soares is seen as a strong contender for the presidency of the European Parliament if the election is won by Socialist and Social Democrat parties. Peter Wise, Lisbon

#### SPANISH UNEMPLOYMENT

### Jobless rate falls

Spain's official unemployment rate, still the highest in the European Union, fell to 18.2 per cent in the final quarter of last year compared with 20.3 per cent a year earlier, according to the national statistics institute.

The total number of jobless fell by almost 330,000 over the year and 72,000 from the previous quarter to 2,968,000 - the first time for six years the figure had dropped below the 3m mark. Cristóbal Montoro, state secretary for the economy in the centre-right government, described it as "the best year for job creation in the history of Spanish democracy". The figures showed a net increase of around 430,000 jobs during the year. David White, Madrid

### Deutsche chief in Holocaust meeting

By Richard Wolfe in Washington and John Authers in New York

Rolf Breuer, chairman of Deutsche Bank, met the US lawyers suing his bank on behalf of Holocaust victims for the first time yesterday as US and German officials prepare for talks to settle Holocaust compensation claims.

All sides seemed optimistic that a settlement could be reached. But lawyers representing Holocaust survivors made it clear they were seeking more than \$1bn from Deutsche Bank alone, and far more from the other German banks and industrial companies for their role in the Nazi-led seizure of Jewish assets and the use of forced labour in concentration camps.

Diplomatic officials close to the talks described yesterday's meetings at the State Department in Washington as an exercise in "trust-building". They said the discussions were at a "very preliminary" stage.

Threats to block Deutsche's proposed acquisition of Bankers Trust, planned to be completed by the end of June, mean the class actions must be resolved quickly. The bank also faces threats of boycotts in the US.

German bankers seem keen to reach a settlement through non-litigation talks rather than litigation.

Officials from both governments discussed details of a German compensation fund, which would be supervised by the government and receive contributions from industrial groups.

Other sources close to the negotiations said Mr Breuer's presence was a signal that Deutsche Bank had decided to attempt to broker its own deal to settle the class actions against them rather than rely on being part of the umbrella fund.

Edward Fagan, who leads one of the two groups of lawyers representing plaintiffs, said Deutsche would be foolish to make an opening offer as little as \$1bn. He expects a final settlement to be "a multiple of billions".

He said the effective deadline was the end of March.

Bodo Hombach, the German chancellor minister, has told Stuart Eizenstat, US under-secretary of state, that the German government is keen to work through a single settlement channel rather than a lengthy and fragmented legal process.

A spokesman for Mr Hombach said the government wanted to protect German businesses from "unjustified attacks and claims, some of which have a clear aim at destroying whole companies".

### Details of EU reforms in dispute

By Peter Norman

Europe's economics and finance ministers yesterday got to grips with the details of negotiating the ambitious Agenda 2000 project for reform of the European Union's finances, farm and regional policies and immediately ran into difficulties.

The German EU presidency's hopes that an "in depth discussion on the financial aspects" of the negotiation yesterday would mark a clear step forward towards a solution at the special EU summit in Berlin at the end of March were frustrated. The talks

revealed widespread differences over how to define and achieve the Agenda 2000 goals.

Ministers emerged from the meeting with widely different assessments of progress reflecting their own national interests. Gordon Brown, the UK chancellor, insisted there was growing support for "stabilisation", or freezing of the EU budget in real terms at around €65bn (€86bn) for the period between 2000 and 2006, as a way of reforming the EU's finances. Such stabilisation, in the UK view, would obviate any need to change its rebate negotiated in the 1980s. But, according to

Oskar Lafontaine, the German finance minister, who chaired the meeting, "most delegations favoured modifying the UK budget rebate".

Wolfgang Röttgenstorfer, the Austrian junior finance minister, predicted the negotiations were more likely to end with a compromise falling short of a real spending freeze.

That would mean net contributors, such as Austria, the Netherlands, Sweden and Germany, should benefit from a generalised corrective mechanism similar to the UK rebate, he said.

French delegates,

meanwhile, lamented the absence of any substantial progress on details at yesterday's talks and accused Mr Lafontaine of "wishful thinking" when he delivered a positive appraisal of the meeting's achievements at the end of the ministers' discussions.

"Each minister defended his own position," noted Dominique Strauss-Kahn, the French finance minister.

Agreement on the Agenda in March "would need a small miracle", said Zalm Eysaen, the Dutch finance minister. But miracles could not be ruled out: "The Dutch always score in the last minute when they play

soccer," he joked.

Yesterday's discussions in the "Ecofin" council focused on the EU's two biggest budgetary items: agriculture and the structural funds for Europe's poorer regions. Germany sought support for a yearly ceiling on agricultural spending based on the planned 1999 level of €40.5bn. Debate on the future allocation to the structural funds centred on proposals ranging from €200bn to €240bn for the entire period from 2000 to 2006. The discussion on agriculture exposed differences on spending and costs of reform of the common agricultural policy.

### Bonn's coalition shies as balloon bursts

The CDU's success in the Hesse state poll has started the SPD and Greens, writes Ralph Atkins

Gerhard Schröder, Germany's chancellor, flew home yesterday from King Hussein's funeral in Jordan to a changed political landscape.

Barely 100 days after taking power in Bonn at the head of a centre-left coalition, Mr Schröder has suffered a sharp defeat in an important regional poll. The surprise defeat on Sunday night for his Social Democratic party (SPD) and its Green party allies in state elections in Hesse, central Germany, will have repercussions across the federal republic.

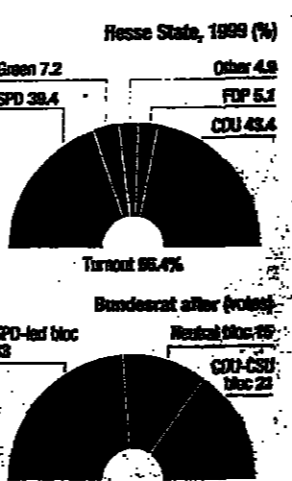
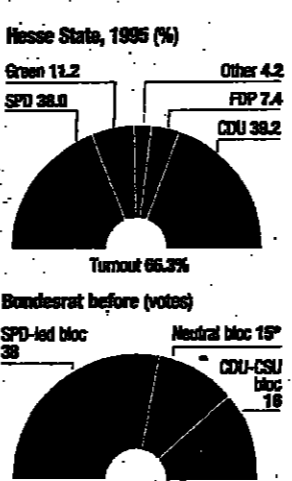
First, Mr Schröder's administration no longer commands a majority in the Bundestag, the upper house of parliament representing the 16 Länder, or federal states. To push through legislation, it will have to work more closely with the opposition Christian Democratic Union, the party it defeated in last September's federal election. The government's ability to project a clear profile, already affected by arguments and policy confusions, has been blurred further.

The first candidate for compromise is likely to be its planned citizenship bill, which would have allowed non-nationals for many of the 7m foreigners living in Germany. The CDU mobi-

Germany: changing faces



Oskar Lafontaine, SPD chairman



Roland Koch, CDU state premier-elect

lised its supporters in Hesse by focusing on opposing the measure and saw its vote increased by more than 4 percentage points.

But other important legislation could be affected, including tax reforms planned by Oskar Lafontaine, finance minister (although measures already in the pipeline can perhaps be pushed through before the new CDU-led government in Hesse is formed). Legislation paving the way for shutting Germany's 19 atomic power stations - an issue fundamental to the Greens - may also have to fight its way through the Bundestag.

Second, tensions within Mr Schröder's coalition have sharpened. The Green leadership's reaction to the party's heavy loss on Sunday was one of agitation; Gunda Röstel, party spokeswoman, said the Greens required a "broader profile" across a range of policies. But the SPD, which increased its vote in Hesse slightly, was also holding its head high. Otmar Schreiner, SPD general secretary, insisted "classic SPD themes" had to play a greater role in future.

The sense of bitterness was all the greater because the defeat on Sunday was unexpected. There was a confidence in the SPD and Green camps that the opposi-

tion was alienating voters with its signature campaign, spearheaded by the Hesse CDU, against dual nationality. In spite of the blunders by the Bonn government in its first 100 days in office, opinion polls pointed to a vindication for "red-green" politics in Hesse; nationally the SPD had picked up a percentage point or two since September.

Now Roland Koch, the boyish 40-year-old CDU candidate for the Hesse premiership, has pricked what he described as "red-green arrogance" with a provocative campaign symbolising a lurch to the right by the CDU (encouraged by Edmund Stoiber, the leader of the Christian Social Union, the CDU's Bavarian sister party). Mr Koch breathed life into an opposition recovering from a post-election depression. Most first-time voters in Hesse turned to the CDU. The SPD will look with a nervous eye at the six state elections still left this year, as well as June's European elections.

How dangerous is Mr Schröder's predicament? There is a slight sense of déjà vu. In the last years of government under chancellor Helmut Kohl, the CDU was repeatedly frustrated by SPD blocking tactics in the Bundestag - led by Mr

Lafontaine, then prime minister of Saarland, as well as SPD chairman. Most dramatically, reform of Germany's complex tax system was repeatedly shelved. At that time, it was the SPD that eschewed a traditional consensus approach; now perhaps an emboldened, right-wing CDU will take a similar line.

But Mr Schröder's position today is still stronger than Mr Kohl's was. For a start, the CDU does not have a majority in the Bundestag either - the balance is held by "neutral" states ruled by the CDU and SPD jointly. On a personal level, the chancellor's standing is relatively unaffected by the Hesse poll. The issues on which Hesse was lost - dual nationality and the publicity fall-out from arguments over nuclear power - were not central to his philosophy.

It might be argued that Mr Lafontaine has been hit worse. After September's federal election, the finance minister boasted his tax plans were backed by most Länder. That claim was already looking hollow after SPD states objected on a number of fronts. Now Mr Lafontaine faces pushing his reforms through a still more hostile chamber.

For Mr Schröder, the new *Realpolitik* is not without advantages. The chancellor

is less comfortable than colleagues in coalition with the Greens. Before election he correctly foresaw problems would be not on foreign but domestic issues. By instinct, he seeks pragmatic compromises, a rebuilding of traditional post-war German social consensus around a "new political centre".

With the evidence from Hesse as ammunition, Mr Schröder could argue to his coalition that it can ill afford to alienate possible supporters in the future. On economic policy, a framework is already there; the centrepiece of Mr Schröder's campaign last autumn was his "alliance for jobs", bringing together unions, the state and employers.

Such a consensus-oriented strategy would not be without risks. The "alliance for jobs" is about details of policy; there is no overriding concept to define a government agenda for the years ahead. The danger is of muddling on.

In addition, Mr Schröder still needs the radical-minded Greens for a majority in the Bundestag, the lower house of parliament. But the Greens are smarting from Hesse. For them it would be better to remain in office, even if the partnership is one of mutual distrust, than to withdraw in the wilderness.

### INTEREST RATES DESPITE PRESSURE FOR CUTS, THE ECB TAKES TIME TO STUDY TRENDS

## Bank weighs all the odds



By Wolfgang Münchau in Frankfurt

Inflation is heading towards zero. The unemployment rate is still close to 11 per cent. Business confidence is sagging and the manufacturing sector is contracting. So why does the European Central Bank not cut interest rates?

The ECB has announced on several occasions that the short-term benchmark rate will remain at 3 per cent "for the foreseeable future" - a time frame it does not specify. Most ECB watchers still

expect a rate cut in the first half of this year. The first realistic date to watch out for is March 4, when the ECB is scheduled to hold its next news conference.

In his news conference last week, Wim Duisenberg, ECB president, talked about conflicting economic signals, such as the gap between consumer confidence, running at an all-time high, and business confidence, which is extremely depressed. The ECB is also intrigued about growing levels of credit to the private sector.

There are signs that some of the negative trends, especially the fall in business confidence, may have bottomed out in January. Mr Duisenberg said the ECB needed to conduct "further

thorough analysis and very close monitoring of underlying trends" before it decided whether to cut interest rates.

But the question of whether to cut rates or to leave them is not a make-or-buy issue for the euro-zone economy, since monetary conditions are by no means overly tight. Real short-term interest rates - actual rates adjusted by expectations of future inflation - are running at 2.3 per cent, according to the ECB, while real long-term rates are 3 per cent. The question is not whether these rates are fundamentally wrong, but whether they need some fine-tuning.

The best argument for a rate cut is the fall in the

headline rate of the harmonised index of consumer prices, which increased at an annual rate of only 0.8 per cent in December (after 0.9 per cent in November). The extreme low level of inflation is largely because of falling energy prices. Core inflation, excluding energy and food, is 1.5 per cent, while service sector inflation remains steady at about 2 per cent.

The ECB also appears concerned about the wage round in the German engineering sector, which could set a trend for other European industries. Mr Duisenberg has warned against a rise in cyclically adjusted budget deficits, which is likely to happen in several European countries this year.

#### Economic indicators for euro-11 countries

	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98	67	98
Inflation (annual % change)	0.8	0.9	1.0	1.0	1.2	1.4	1.81	2.2
Unemployment (%)	10.8	10.8	10.8	10.9	11.0	11.0	11.0	11.6
Trade (Bps bn)								
Exports	n/a	n/a	68.7	68.8	68.1	72.4	701.8	657.7
Imports	n/a	n/a	61.1	62.5	62.8	68.9	671.4	694.2
Trade balance	n/a	n/a	7.5	6.2	6.5	13.5	30.4	7.5
Current account (Bps bn)	Q3 1998	Q2 98	Q1 98	Q4 97	Q3 97			
Current account balance	21.8	25.0	12.4	25.0	25.0			
As % of GDP	1.5	1.7	0.9	2.0	1.5			
Industrial production (%)	Sep-Nov	Aug-Oct	Jul-Sep	Jun-Jul	May-Jun	1997	1996	
(% mo over previous 3 mo)	0.3	0.5	0.5	0.7	0.7	4.11	4.01	
GDP growth (%)	Q3 1998	Q2 98	Q1 98	Q4 97	Q3 97			
Over same quarter last year	2.7	2.9	2.9	3.1	2.5			
Money supply	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98		
M3 Annual growth rate (%)	4.5	4.7	5.0	4.5	4.5	5.0		

But even the hardliners on the board of the ECB will ultimately find it difficult to argue that the balance of risks in the euro-zone economy would be on the side of higher inflation rather than lower growth.

If current trends were to continue, the political pressure for cuts in interest rates will become more intense. The German government appears increasingly concerned about domestic growth this year and is already stepping up pressure on the ECB to cut rates.

On balance, a rate cut of between 0.25 and 0.5 percentage points in the first half of this year still remains the most likely scenario.

Access fee irks

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# Access fee irks German phone groups

By Frederick Sidemann in Bonn

German private sector telecommunications operators protested yesterday after industry regulators set a relatively high access fee for companies using local networks owned by Deutsche Telekom, the former monopolist.

Competitors, who have successfully hacked away at Deutsche Telekom's share of the long-distance call market, had pressed for a monthly charge of between DM15 and DM20 for access to the "last mile" of the network leading into customers' homes. Deutsche Telekom has consistently complained that low interconnection rates for long-distance calls have meant effectively subsidising competitors, who pay a relatively small charge of 2.7 pfennigs per minute to use its networks and then grab market share through undercutting. The company, which is estimated to have lost as much as 30 per cent of the long distance market, is seeking to challenge the long

distance interconnection charge in the courts. The regulatory authority is thought to have become more sympathetic to such considerations. Arne Börnsen, vice-president, also played down the consequences of higher local access charges. He said he did not expect competition in the local market to be as focused on price as in the long-distance segment, where a price war has driven costs down by some 70 per cent. He said the decision would spur market entrants to invest in infrastructure and compete on the range and quality of services.

But Harald Süßer, chairman of Mannesmann Arcor, a joint venture between industrial group Mannesmann and Deutsche Bahn, the federal rail company, said the decision would "protect Deutsche Telekom's monopoly position in the local network". He said his company would explore the possibility of challenging the decision in the courts.

James Golob, telecoms analyst at Deutsche Morgan Grenfell in London, said the regulator had created an additional problem by setting a local access wholesale price to competitors which is 16 per cent higher than Deutsche Telekom's monthly line rental charge of DM21.88.

## KOSOVO SERBS AND ALBANIANS IN SPOILING TACTICS

# Cook, Vedrine seek to keep talks going

By David Buchan in Rambouillet and Guy Dhamore in Belgrade

The French and British foreign ministers will today intervene in the Kosovo peace talks in an attempt to end efforts by both the Serb and Albanian sides to derail the negotiations.



Robin Cook, left, and Hubert Vedrine: intervention in Kosovo talks

Hubert Vedrine, the French foreign secretary, yesterday travelled back to the talks, in the chateau of Rambouillet, and today will be joined by Robin Cook, his UK counterpart. The two ministers will seek to step up the drive for a fully fledged peace settlement in the Serbian province within the next 10 days. Mr Vedrine said the negotiations were proving tough. "I cannot be optimistic because it's very complicated and there are no easy issues in these discussions," he said. Officially, the foreign ministers' intervention in the talks, which only started three days ago, is aimed at "lending weight to the negotiating effort and to monitor progress so far". Privately, officials are dismayed at early spoiling tactics by both sides. The Albanian representatives are pushing the idea of a formal ceasefire in Kosovo if it is backed by Nato peacekeeping troops. Their prime interest appears to be to get Nato troops into Kosovo, a goal for which they would use the minimal achievement of a ceasefire as a pretext.

But Nato ministers and commanders believe that a ceasefire without an accompanying deal on Kosovo autonomy would not hold. They say they would not send their troops into a renewed conflict. The 13-strong Kosovo Albanian team has also named Hasim Thaci, a leader of the separatist Kosovo Liberation Army (KLA), as their chief negotiator - a move that bodes ill for the more moderate members of the delegation. RTS, Serbia's state-run television, said the Serbian delegation had proposed that the two parties first sign an agreement accepting 10 basic principles set out by the mediators, the most important being the "sovereignty and territorial integrity of Serbia and Yugoslavia". This position undermines the US-

proposed peace plan that makes no reference to Kosovo remaining part of the republic of Serbia. In Madrid, Javier Solana, Nato secretary-general, was more upbeat, saying the latest information from the talks "could not be qualified as bad". He said international pressure for an agreement would continue "with maximum intensity". William Cohen, US defence secretary, reiterated in Bonn that the US would not commit troops to a Kosovo peacekeeping force unless there was a real agreement. "None of us would contemplate what we call a non-permanent environment, namely we would be there to keep peace, not to make peace."

# Italians sock it to world's hosiery makers

By Peter Marsh in Brescia

Along with the normal executive trinkets in the opulent office of 57-year-old Francesco Lonati, one of Italy's most powerful industrialists, sits a pile of socks - not pairs of socks but odd ones of different styles and colours.

This is not so mysterious as it sounds since a large part of the time of Mr Lonati, founder and chairman of the Lonati steel-to-electronics business empire, is taken up in designing new types of sock making machines - a field in which the family-controlled Lonati company has 75 per cent of the world market.

Interviewed this week in the company's headquarters in Brescia, northern Italy, Mr Lonati had good reason to be smiling. His company has just finished extensive, top secret trials of a machine that performs the equivalent in sock-making to breaking the sound barriers in aerospace - producing socks in high volumes in a single operation, rather than requiring a separate step to stitch up the toes.

"The new machine will revolutionise sock-making," said Ettore Lonati, vice-president of the group and one of the elder Mr Lonati's three sons who help him to run the company which last year had revenues of £1,800bn (about \$1bn) - about a third of which comes from textile production machines. As well as interests in sock production systems, the group makes spinning machines and also controls roughly 90 per cent of the market in machines similar to sock machines for making women's tights.

Under the watchful eye of the elder Mr Lonati, a team of technicians at the company started work five years ago on the world's first "closed toe" sock making machines - systems which have defied the best brains in the industry since mechanised sock production started 150 years ago.

In a project which has cost \$3m, the team has used a mixture of mechanical and electronic principles to put together a complete sock in one operation including the vital stitching of the toe. This offers considerable savings to the world's sock manufacturers which normally require a separate set of machines for this job and extra labour.

The world market in sock-making machines is estimated at \$150m a year, while textile makers around the world turn out every year 7bn pairs of socks worth \$10bn at retail prices.

So far, Lonati has sold 200 of its new machines at about \$27,000 each to customers around the world and it expects orders for another 2,000 by the end of this year. Although the machines, which can turn out up to 800 individual socks a day are roughly 30 per cent dearer than previous generations of equipment, they should prove worthwhile to customers because of the efficiency savings, according to Ettore Lonati - one of 13 family members who help to manage the company. But the biggest pleasure in the new machines this week was being displayed by the patriarch of the industry, Francesco Lonati, who set up his business in 1945 as a penniless mechanic and says he has no thought of retiring. "My father says running the business keeps his mind young," says Ettore.

# France's largest union group takes on a younger image

By Robert Graham in Paris

A younger, more pragmatic leadership has taken over the CGT, France's largest trade union confederation, with a commitment to cross-border bargaining in Europe.

The confederation's new leader, Bernard Thibault, 40, was elected at the end of the CGT's 48th congress, staged last week in Strasbourg, when he also pledged to work for greater unity within France's fractured trade union movement.

The shift in stance by the CGT was cautiously welcomed by the Medef, the employers' federation, which has long viewed the confederation as the most confrontational of trade unions in France. The CGT's ideological position has remained closely wedded to the Communist party, and it has seemed increasingly out of step with the altered employment patterns and pay bargaining that have followed wider changes in France and the global economy.

Membership has fallen to 645,000 from over 2m in the early seventies. Of these members, almost 150,000 are retired workers. The union continues to draw its bargaining power from its stronghold in the public sector. The main challenge has come from the more moderate CFDT, which has successfully recruited new members in the expanding service sector and been unafraid of striking deals with management. The CFDT, headed by Nicole Notat, now accounts for 25 per cent of union membership against the CGT's 38 per cent. Force Ouvrière, the other main group, hovers around 10 per cent.

# Turkey urged to bite the bullet on inflation

By Leyla Souleian in Ankara

The International Monetary Fund yesterday held out the promise of loans for Turkey in exchange for a more ambitious anti-inflation strategy once elections scheduled for April 18 are out of the way.

Calling for "early action" to tackle high real domestic interest rates which were "damaging the real economy", the Fund said it looked forward to designing a "more ambitious and comprehensive disinflation strategy" with the Turkish authorities, which would be implemented after the elections.

But it suggested the best caretaker administration of Bulent Ecevit, the prime minister, could do in the meantime was to safeguard gains made under an existing IMF-monitored programme, which carries no financial support. Turkish officials have made clear that they would welcome IMF loans to help them convert expensive domestic debt into cheaper longer-term loans denominated in foreign currencies.

A statement issued at the conclusion of a two-week IMF staff visit to Turkey said the country had successfully weathered the shocks of last year's emerging markets crises and had made impressive progress in reducing chronically high inflation. Year on year consumer price inflation last month slowed to about 66 per cent from 102 per cent. It said the stabilisation of reserves at a comfortable level, together with a strong current account position, provided "reassurance that the external position will remain viable in the period ahead".

The statement provided a shot in the arm for Turkish efforts to boost the confidence of the international financial community at a time when the country is wrestling with an economic slowdown exacerbated by a squeeze on cheap foreign loans. The IMF reported that GNP growth slowed to 3.2 per cent last year down from 7 per cent in 1997. But the Fund also criticised Turkey's failure to sustain structural reforms required to address the root causes of high inflation into the second half of 1998. Changes which Turkey had failed to deliver under the IMF-monitored programme included a "quantum jump in privatisation" which generated only \$12m as opposed to \$2bn envisaged for last year.

# Ukraine banks in fear of a run

By Charles Clover in Kiev

Ukrainian domestic banks yesterday warned that a plan by their finance ministry to reschedule 200m hryvnia (\$10m) of maturing treasury bills could cause a run on the country's banks.

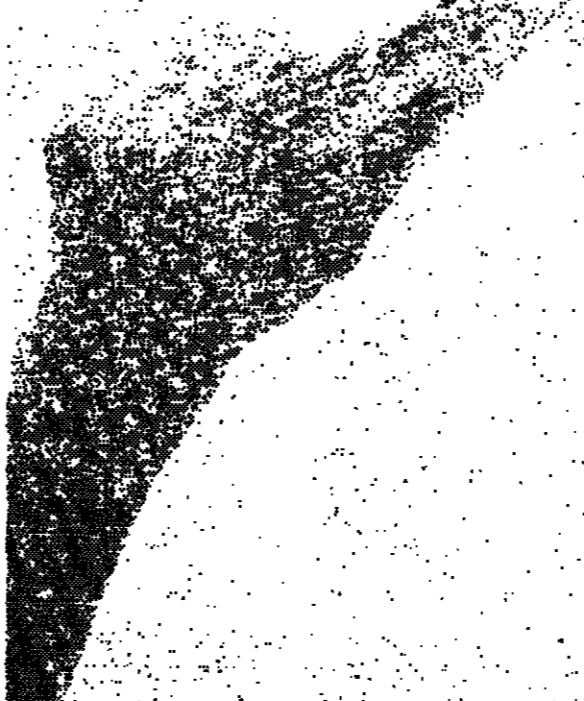
"The conversion order was approved without consulting the banks, without taking into account their liquidity level, and it threatens to cause panic in the financial market," said the Association of Ukrainian Banks yesterday.

The finance ministry had told banks last week that it would redeem government treasury bills maturing in February in several instalments between May and September of this year. The ministry said bank representatives "had offered no objections except several technical ones".



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WORLD TRADE

OIL TRADE LOW PRICES FORCE BEIJING TO BREACH AGREEMENT WITH JAPANESE BUYERS

# China halts crude sales to Japan

By James Kyngie in Beijing

Low international oil prices have prompted China to suspend exports of crude oil to Japan from the vast Daqing field, breaching an agreement with Japanese buyers and raising doubts over Chinese oil exports to other destinations.

An official with the state-run China National United Oil Corp (CNOOC), the sole agent for exports of Daqing crude to Japan, said yesterday there were no plans to deliver February shipments to Japanese buyers. He declined to provide an out-

look for March and later. "This is a problem in government policy. We will have to see whether it can be resolved later," said the official, who declined to provide any further explanation.

Japanese buyers of the low-sulphur crude, which is used by power stations, had requested about 580,000 tonnes of Daqing, or about 4.2m barrels, in February. Under a long-term agreement between Japan and China, CNOOC is committed to ship around 6m tonnes of Daqing crude a year. Japanese oil industry ana-

lysts said the disruption was not expected to cause significant dislocation among users, which are exploring alternative sources of low-sulphur crude such as Minas from Indonesia. Minas, however, is more expensive.

The breach of the long-term Japan-China trade agreement on Daqing oil could undermine the faith that China's trade partners place in such agreements, analysts said. However, legal action by the Japanese against CNOOC was unlikely, the analysts added.

The episode highlights some of the fundamental dif-

ferences in China's energy sector. Domestic manufacturers have, in effect, been subsidising China's inefficient crude oil producers since international oil prices fell below China's domestic prices last year.

A flood of crude import smuggling driven by the needs of hard-pressed industries to cut costs has since been curbed by a nationwide anti-smuggling campaign. The result has been that the profits of local oil producers have begun to rise again. But the margins of manufacturers, forced to buy oil at higher than international

prices, have been hit. The decision to halt Daqing exports to Japan springs partly from the fact that domestic demand has grown recently following the relative success of the anti-smuggling campaign. Another important factor has been that, in many cases, the cost of producing Chinese crude is higher than the international price.

Unless international prices decline, the trend in crude exports may gather pace this year. Last year, China exported 15.6m tonnes of crude, down 21 per cent from 1997.

# Dasa to update Polish fighters

By Alexander Nicoll, Defence Correspondent

DaimlerChrysler Aerospace (Dasa) of Germany is to modernise 22 MiG-29 aircraft of the Polish air force, bringing them up to the standards of the Nato alliance which Poland joins next year.

A contract signed in Warsaw yesterday, believed to be worth nearly DM100m (€51m, \$68m), will enable Poland to delay buying expensive new aircraft as replacements for the Russian-made MiGs, which are to be given new electronics and cockpit displays.

Poland, like Hungary and the Czech Republic which also enter Nato next year, needs cost-effective ways to bring its military in line with western standards - although existing Nato members have made clear they do not expect new members to embark on spending sprees they cannot afford.

The Polish order indicates a promising market for Dasa, which has modernised 23 MiG-29s inherited by the Luftwaffe from East Germany at Germany's reunification. Dasa is in talks with Hungary, Romania, Bulgaria and Slovakia.

Industry experts said MiGs were designed by Soviet engineers to have a much shorter flying life than western military aircraft, because maintenance work was cheap.

The western approach is to keep extensive maintenance to a minimum. The upgraded German MiGs undergo extensive checks every 1,300 flying hours instead of every 800 previously. Experts said the Polish MiGs, although fairly old, were being flown for only about 50 hours a year and could have their lives extended up to 2010.

Dasa said it and the German ministry of defence had suggested a co-operation programme with all European countries using the MiG-29 to seek solutions to logistical and technical problems.

NEWS DIGEST

CHINESE TRADE

## Beijing considers new export insurance body

China is considering establishing a separate export insurance institution in order to stimulate overseas sales. The new body would complement existing export insurance provided by the Export and Import Bank of China (Eximbank) and the People's Insurance Company of China (PICC), which can offer only limited support for Chinese exporters, according to press reports. A PICC executive was quoted as saying that the state-run company was a profit-seeking organisation that could not offer a suitable environment for long-term export credit insurance. Li Jianzhi, deputy manager of the Eximbank's export credit insurance department, also suggested the bank's structure was unsuitable for longer term export credit insurance.

The creation of a separate export credit insurance body would fit with the government's wide-reaching efforts to support the country's struggling exporters with measures short of a devaluation of the Chinese currency. China's export growth has collapsed in the wake of the Asian crisis, as the competitiveness of Chinese exporters has been eroded by a strong, stable Chinese currency in a region of depreciated currencies.

Beijing has already used tax rebates and export credits to assist exporters. James Harding, Shanghai

TURKISH CONTRACTS

## International arbitration agreed

Turkish officials are believed to have reached an agreement that would remove the single biggest obstacle to foreign investment in Europe's fastest-growing energy market. Energy industry executives said they understood there was substance to reports that the energy ministry had convinced the Danes, or Council of State, to allow international arbitration in energy deals. Under Turkish law, the Danes is supposed to arbitrate in the event of disputes between Turkish and foreign partners on the implementation of a contract.

But foreign companies find it hard to raise funds for any projects which do not provide for international arbitration. Turkey's refusal so far to accept international arbitration, except in isolated cases, has complicated its attempts to transfer operating rights at a number of power plants to more efficient private investors.

The lack of international arbitration is also described by UK water industry executives as the single most important obstacle to foreign investment in new water and sewerage plants. Leyla Boulton, Ankara

NUCLEAR POWER IN INDIA

## Ukraine 'signs turbine deal'

Turbostom of Ukraine has reportedly signed a contract to supply an unspecified number of nuclear turbines to India, although Ukrainian officials declined to confirm the television report. Last year, the US objected to Turbostom's planned sale of nuclear turbines to Iran, fearing that the technology would aid Iran with its efforts to build a nuclear bomb. As a result, the Ukrainian government pressured Turbostom to abandon the deal. But US officials said they had no problem with such a sale to India, which last year successfully tested a nuclear bomb. Charles Clover, Kiev

# Cuban telecom threat tricky problem for US

By Pascal Fletcher in Havana

Cuba's repeated threats to suspend telephone services with the US if US telecom companies do not make scheduled phone call revenue payments have posed a tricky political problem for the US government.

US State Department officials say they are taking "very seriously" public and private warnings by the Cuban government that bilateral phone links will be cancelled if the payments are not forthcoming.

The problem has arisen out of an ongoing court case in Florida in which relatives of four Cuban-American pilots killed when their two small aircraft were shot down by a Cuban MiG fighter in early 1996 are seeking compensation for the deaths. They have sought to collect this from the millions of dollars paid each year by US phone companies to Cuba for telecommunications services.

Since direct phone links became operative in late 1994, several million calls are made each year.

This traffic earns Havana well over \$50m a year, paid by US telephone companies through special licences

granted under the existing US embargo against Cuba. The US government, which condemned the 1996 aircraft downings as murder and heightened economic sanctions against communist-ruled Cuba as a result, is opposing the legal attempts by the dead pilots' relatives to seize the Cuban telephone fee assets.

"The US government believes that garnishment (seizure) of the payments could have serious implications for US foreign policy and for humanitarian interests with respect to the Cuban people and the Cuban-American community," a US official said.

Senior US State Department and Treasury officials have testified to the Florida court that the phone services provided by more than half a dozen US companies, including AT&T and MCI WorldCom, to Cuba's phone company ETECSA are a key part of Washington's two-track policy towards Cuba. This policy seeks to combine pressuring the Cuban government with encouraging humanitarian "people to people" contacts, for example through telephone links.

Cuba is insisting the telephone fees be paid regard-

less of the court case. "It's a commercial matter," a foreign ministry spokesman said, adding the "limit date" for the payments had been reached.

Cuba has authorised the first completely foreign-owned investment on its national territory, although the completed project, a \$15m diesel electric power station, will be transferred back to Cuban ownership after 4½ years.

The build, own, operate, transfer contract was awarded to a Panama-based company with Lebanese capital, Genpower Cuba.

Genpower, using German and Israeli equipment, will construct the small power plant on the Isle of Youth, south of the western part of Cuba's main island, and will sell electricity in hard currency to the Cuban state power company.

Cuba's 1995 foreign investment law allows 100 per cent foreign ownership in principle but the Cuban government had so far authorised only a small number of overseas investors to hold a share above 50 per cent in individual projects.

Usually the foreign share granted in Cuban joint-ventures is 49 per cent.

# US investors head for Europe

By Shilpa Moban in Washington

Defying conventional economic wisdom, US manufacturers last year allocated 65 per cent of their foreign direct investment (FDI) to high-wage and mature labour markets in preference to low-wage developing countries.

The finding, released in a research report by Deloitte Consulting, the international management consultancy, reported that Europe remained the largest recipient of US manufacturing FDI, receiving a total of \$16.4bn.

The UK received the largest share of US investment in Europe with allocations amounting to \$5.5bn.

"Reducing currency risks and easing cross-border transactions facilitated by the introduction of the euro as well as further deregulation of industry will continue to attract US manufacturers to invest in the region," said Michael Pradette, practice director of manufacturing in the Americas at Deloitte Consulting.

The stability of high-wage markets attracted many businesses in light of the frequent volatility of developing markets, particularly in

Asia, last year. Well developed infrastructure, undeveloped niche markets, and skilled labour were other key elements that made high-wage markets a prime choice for US multinationals expanding abroad.

Geography appeared to be a key component in US multinational decision-making. Canada, the second largest recipient of US manufacturing investment, captured \$4.2bn of FDI, tripling the amount of foreign direct investment compared with 1997.

To the south, Mexico, a popular emerging market, captured \$2.9bn, the first increase in its US direct investment since 1994.

Despite the turmoil of the Asian market last year, not all Asian markets experienced a withdrawal of US foreign direct investments.

Singapore captured the largest share of US investment in Asia with roughly \$2.2bn, outdoing China, Hong Kong, South Korea, Taiwan, Australia and New Zealand, which all experienced a slight growth in US investment by the beginning of last year.

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Please send these documents by not later than February 28, 1999, to: LEVG, Mr. Reinhard Wölpert, Deutscher Platz 4, D-04103 Leipzig, Tel. +49 (0) 341 22 00 00, Fax +49 (0) 341 22 00 23.

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No. 89488 of 1999  
In the High Court of Justice  
Chancery Division Companies Court  
In the Matter of  
THE HANOVER CONTINENTAL EUROPEAN INVESTMENT TRUST plc  
and in the Matter of  
The Companies Act 1985

NOTICE IS HEREBY GIVEN that a Petition was on 21 January 1999 presented to the High Court of Justice for the confirmation of the reduction of capital of the above-named Company from £22,342,000 to £13,010,000 by returning capital which is in excess of the wants of the Company.

AND NOTICE IS HEREBY GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 17th day of February 1999.

ANY Creditors or Stakeholders of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requesting the same by the undersigned Solicitors on payment of the regulated charge for the same.

Dated the 26th day of February 1999  
(SOLICITORS & PAPERS ONLY)  
One Silk Street, London EC2Y 8HQ.  
Solicitors for the above-named Company

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**MUTUAL OF OMAHA U.K. LIMITED**

On 3 February 1999 the Mutual of Omaha Insurance Company (the "Company") was incorporated in the State of Nebraska, USA. The Company is a member of the Mutual of Omaha Insurance Group (the "Group").

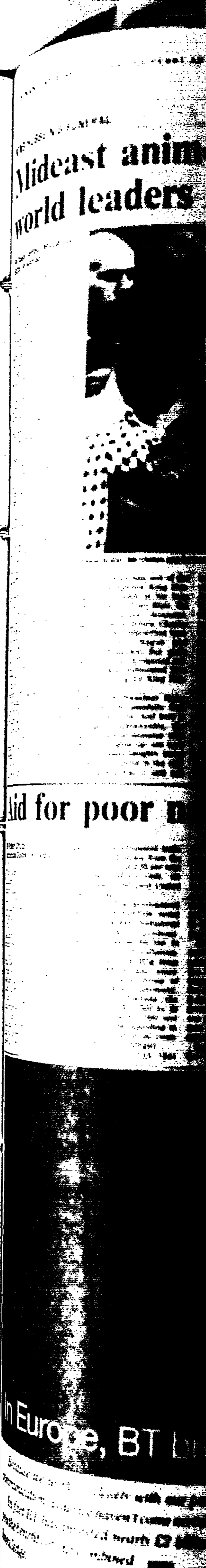
It is hereby declared that under the terms of the Articles of Association of the Company, the Company is authorised to issue shares of up to £10 million in the aggregate. The Company is authorised to issue shares of up to £10 million in the aggregate.

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# Corporate radar.

**FINANCIAL TIMES**  
No FT, no comment.



KING HUSSEIN'S FUNERAL

Mideast animosities banished for a day as world leaders mourn region's peacemaker

By David Gardner, Middle East Editor, in Amman

Only King Hussein could command such a quorum, and only then, upon his death.

Such a gathering had never been seen in the Middle East, and very likely will not be again, unless, by some miracle, the Arabs and the Israelis reach a way of living with each other. That would require the Arabs to bury a century of hatchets. It would also require the Israelis to conquer their own divisions - at least enough to decide what sort of peace they want.

For at yesterday's magnificent yet informal state funeral for the late Jordanian monarch, there they all were: Arab leaders with a past of communicating with each other by car bomb, some of whom would never knowingly be seen at an occasion attended by Israelis; a huge but visibly split delegation from Israel; and all amid a melee of over 50 world leaders, come from all continents to pay their respects to a man not a few of them had at one time or another schemed against and reviled.

It was a protocol and security nightmare for the Jordanians, but they carried it off with aplomb, dignity, and the mix of courteous informality that so characterised their dead leader. Nobody was in any doubt it increased their pride in him. Imagine the problem - the seating arrangements alone a diplomatic nightmare - One thing is the bit or even tripartisan solidarity shown by the US and the UK. Bill Clinton attended with former President Jimmy Carter from his own party and Republican President George Bush and Gerald



Yasser Arafat, Bill Clinton and Benjamin Netanyahu among about 50 world leaders taking part in the funeral procession yesterday

Ford (a mere four out of the 10 US presidents King Hussein dealt with in his long reign), while Tony Blair, the British prime minister, arrived with Prince Charles and the two opposition leaders, William Hague and Paddy Ashdown. But quite another level of regional animosity was subsumed into the mourning for King Hussein.

There is President Hafez al-Assad, the painfully frail master of Syria. And here is Benjamin Netanyahu, the Israeli prime minister, who refuses to give up one inch of the Golan Heights Israel seized from Syria in the 1967 Arab-Israeli war - still not

settled by treaty, and in which King Hussein lost east Jerusalem and the Palestinian West Bank. Nearby is the ailing Yasser Arafat, loser in the 1970-71 civil war King Hussein fought against the Palestinians after the 1967 disaster, but now saluting the dead monarch's coffin. Milling around them are Gulf Arab leaders still technically at war with Israel, not to mention a modest delegation from Lebanon which is daily at war in the Israeli-occupied buffer of southern Lebanon.

Or consider the Iraqi delegation. After December's bombing campaign by the US and the UK, continued by

now almost daily skirmishes between Iraqi and allied war planes, one would assume Taha Mohiaddin Ma'arouf, Iraq's vice-president, would not want to be in the same cortege as President Clinton or Mr Blair, or they with him - and indeed, Saddam Hussein's deputy was nowhere to be seen in the throng.

Moreover, given that Mr Saddam last month called on the Arab masses to rise up and overthrow the "throne swarmer" who govern them, few Gulf monarchs at yesterday's funeral would have wanted to be caught in the same frame as the Iraqi leader's functionaries either.

An entirely different problem, under the circumstances, was presented by President Boris Yeltsin of Russia, who ignored doctors' advice to come to the funeral. Propped up by aides, he had to abandon the procession, parting a cortege the size of the United Nations as his Zil limousine sped him away.

The huge Israeli delegation presented a protocol problem all its own - largely because it split into four delegations, filing very separately past the lying-in-state. First was President Ezer Weizman, who has occasionally exceeded his ceremonial powers to warn Mr Netan-

yahu against intransigence. Then came the Israeli prime minister with his foreign minister and right-wing rival Ariel Sharon, the invader of Lebanon in 1982 who periodically liked to remind King Hussein that Jordan was part of Biblical Israel. Third came Ehud Barak, Mr Netanyahu's Labour challenger in the most vicious election campaign since Israel's foundation. He was followed by his predecessor Shimon Peres, architect of the now stagnant peace process, accompanied by Yitzhak Mordechai, the defence minister who split from Mr Netanyahu to lead a new centrist party in the May elections.

If that was not enough, there was also Ephraim Halevy, chief of Mossad, which trumped over Israel's 1994 peace treaty with Jordan to launch a botched assassination against a leader of Hamas, the Palestinian Islamist movement, in Amman in 1997. It would not have been the occasion it was had not Khaled Meshal, the Hamas leader targeted, not fled past the coffin shortly afterwards.

The Jordanian authorities dealt with it all by simply leaving the visiting dignitaries to find their own seating.

There surely must have been some artful premeditation in the fact that it was President Assad - a man who at least twice over the decades threatened King Hussein with invasion - was the first in the long queue after the funeral to present his condolences to the young King Abdullah. His was the most remarked presence at King Hussein's extraordinary send-off - and perhaps marked an artfully buried hatchet.

Bagpipes, The Last Post and readings from the Koran

By Judy Dempsey in Amman

Close to 11am, on a bitterly cold morning, the cortege carrying the coffin of King Hussein slowly made its way from the Bab el Salam royal residence, past the hospital where the king died on Sunday after a long battle with cancer.

The cortege, led by guards wearing the traditional red and white headdress of Jordan, wound its way to the small royal cemetery, located in the grounds of the Raghdan Palace, the final resting place of the Hashemite kings.

Along the route, the shops were closed. Black flags hung at half mast. From the open windows, one could hear the verses of the Koran being recited on radio and television.

As the cortege went down the hill towards the palace, through the poorer districts of the capital, the crowd started to swell.

Often five deep, young and old tried to push their way toward the vehicle carrying the body of a king, who during his reign of 47 years became their father figure and protector, never shunning contact with his own people.

poised to protect the kings and princes, presidents and prime ministers, who had come from around the world to attend one of the most extraordinary funerals in the Arab world and of the late 20th century.

Yet within the confines of the lush grounds of the palace, Jordan's new king, Abdullah II, 37, chose to give pride of place to his own people. They were first to file past the coffin of his father as the foreign dignitaries waited outside, thrown together without any order of preference, by the palace and wait their turn.

Inside the small Throne Room, whose windows face Mecca, Jordan's many former prime ministers, former chiefs of the Royal Court and other Jordanian dignitaries, filed past the coffin, as King Abdullah stood beside Prince Hassan, the uncle he suddenly replaced as heir apparent last month. It was then the turn of foreign leaders.

Soon after, without any delay, the coffin was taken to the cemetery, led by guards playing a mournful Scottish tune on bagpipes, a legacy of the British colonial era. The body, wrapped in a white shroud, was lowered into the ground. The Last Post was sounded. The Koran's prayers for the dead were recited.

The foreign dignitaries paid their last respects by shaking hands with King Abdullah. But by the time they had driven off in their limousines, the young king was receiving ordinary Jordanians, continuing the common touch of his father and ending the ceremony - as it began - with his own people.

Aid for poor nations sinks to record low

By Robert Chote, Economics Editor, in London

The amount industrial countries spend on development aid for poor nations fell to a record low in 1997, but there are tentative signs of an upturn.

Overseas development assistance by 21 of the richer members of the Organisation for Economic Co-operation and Development dropped from \$55.4bn in 1996 to \$48.3bn in 1997, the OECD said yesterday. Adjusting for inflation, this represented a fall of 5.8 per cent. As a share of national income, aid spending fell from 0.25 per cent in 1996 to a record low of 0.22

per cent. Development assistance is well down from the historic norm of 0.33 per cent recorded before 1992, let alone the 0.7 per cent United Nations target.

The OECD's development assistance committee noted that the largest industrial countries were predominantly to blame for the 20 per cent fall in inflation-adjusted aid spending since 1992. Development assistance from the Group of Seven - Japan, Germany, France, Italy, Canada, the US and the UK - fell by 29 per cent between 1992 and 1997, while real spending in the smaller industrial countries was little changed. The OECD noted that

development aid had been seen as a soft target as industrial countries took steps to get their government borrowing under control. The share of government spending devoted to aid thus fell to 0.6 per cent in 1997 from 0.8 per cent five years earlier.

But the OECD noted there were some reasons for optimism. The report singled out the UK for having made a firm commitment to increase the share of national income it devotes to aid. A pledge to reverse falling aid spending was also included in the German government's coalition agreement. Canada and Japan were the only G7 countries to

increase aid spending in real terms during 1997 and this was only because they had caught up with payments to multilateral agencies that had been delayed from the previous year. US aid spending fell sharply in cash terms, but this was partly because its payments to Israel were no longer classified as development aid.

The Nordic countries and the Netherlands remained by far the most generous aid donors in 1997, with each of them easily exceeding the UN target. Denmark was the most generous, giving 0.97 per cent of national income. The US is the least generous aid donor at 0.09 per cent of national income,

although in cash terms its contribution was second only to Japan at \$6.88bn. The UK's contribution in 1997 amounted to 0.26 per cent of national income, but the spending plans hammered out between the Department for International Development and the Treasury mean this is set to rise to 0.3 per cent by 2001.

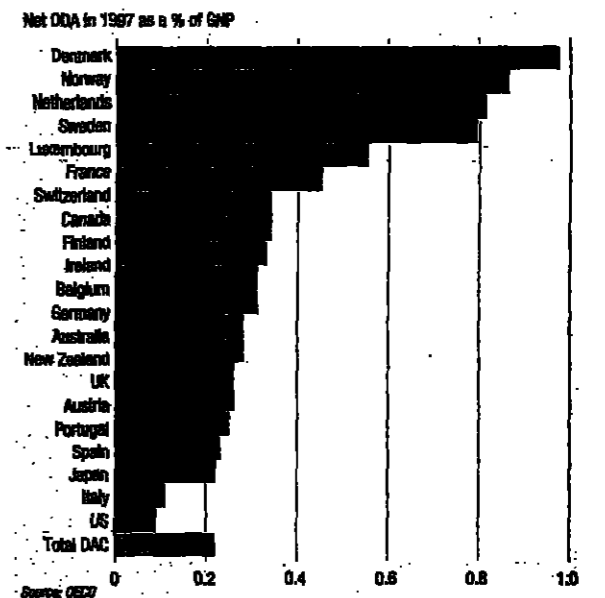
The committee welcomed the fact that many donors were now concentrating development assistance on the achievement of international targets for poverty reduction. Gender equality, improving basic health and education, good governance and environmental sustainability

have all become more important priorities.

Structural changes are also taking place in aid provision, with many countries taking the opposite approach to the UK government and integrating development programmes into ministries of foreign affairs. Aid implementation is also being entrusted increasingly to independent agencies.

Several donors are decentralising responsibilities and strengthening their physical presence in developing countries, mirroring the reforms undertaken at multilateral agencies such as the World Bank. But some are reducing their presence in the field to save money.

Overseas aid



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ASIA-PACIFIC

BANK OF JAPAN CHIEF GOVERNMENT SPOKESMAN MAKES PUBLIC REQUEST

BoJ under pressure to buy more bonds

By Michiyo Nakamoto and Naoko Nakamae in Tokyo
Pressure on the Bank of Japan (BoJ) to buy government debt increased yesterday as Hiroshi Nonaka, chief cabinet secretary, called on the central bank to consider increasing its market purchases of government bonds.

for the central bank to buy more Japanese government bonds (JGBs). It also comes just before the bank's independent policy board meets on Friday.

Nonaka's comments reflect growing unease within the LDP that rising long-term interest rates could dent the recovery that Keizo Obuchi, the prime minister, has pledged this year. But the chief cabinet secretary stopped short of calling on the BoJ to underwrite JGBs, which is illegal under current legislation.

Both the central bank and the finance ministry have strongly opposed any suggestions that the BoJ should directly underwrite JGBs. Eisuke Sakakibara, vice finance minister, yesterday said it was "an absurd idea and should not be done".

But Mr Sakakibara indicated the BoJ could increase market purchases of JGBs. The idea is opposed by many BoJ officials who believe the bank must maintain its independence from politicians.

Japanese probe on sensitive exports

Hitachi Electronics, the precision instruments maker, is being investigated on suspicion of illegally exporting to China instruments that could be used to produce nuclear weapons.

NEWS DIGEST

CENTRAL BANK

New Zealand switches monetary control system

The Reserve Bank of New Zealand is to abandon its controversial attempt to control monetary conditions through setting broad targets through an index (the MCI) and switch to a more traditional fixed cash-rate system.

HONG KONG

Dispute looms with Beijing

Hong Kong looked on course for a serious constitutional dispute with the Chinese government after mainland officials sharply criticised an historic judgment by the territory's Court of Final Appeal.

TAIWAN ECONOMY

Growth forecast cut

Taiwan's government yesterday cut its forecast for 1999 economic growth to 4.74 per cent and said the island's economic expansion in 1998 was its weakest in 16 years.

Self-confident India unmoved by US nuclear growling

Jaswant Singh, India's foreign minister, is interviewed by Peter Montagnon

Jaswant Singh, India's foreign minister, almost shudders with distaste at the thought. He wants nothing so cheap as "a deal" with the US on the lifting of economic sanctions imposed as a result of India's nuclear tests last May.

frustrated fury. He is not moved by their desire to punish India for last year's tests. Diplomats say they now expect Mr Singh's approach to win the day. Both sides know the risk of striking a definitive deal which could be torn apart by political critics at home.

of this view, he says, rather than any trade-offs involving shifts in intrinsic positions. India continues to argue that its posture on nuclear deployment will be passive - minimum deterrent, no arms trade, no first use, no use against non-nuclear states - and that it has an "impeccable" record on export controls.



Jaswant Singh facing up to Washington's sanctions Reuters

Instead, he says he is aiming for acceptance by Washington of India's claim to be a responsible nuclear power and its earnest desire not to get in the way of global non-proliferation efforts. Thereafter it is up to the US to lift the sanctions if it so wishes, but the hope remains that Washington will then enter a new era of close relations with the world's largest democracy.

Instead the effort now looks likely to be incremental with a gradual elimination of differences leading ultimately to a visit to the region by President Clinton, the first by a US President since Jimmy Carter in 1976. A start, some believe, could come quite soon with the lifting of restrictions on World Bank lending.

It is willing to sign up to an enforceable treaty on fissile material production, which Mr Singh argues is more effective than a non-verifiable unilateral declaration of intent to limit production.

ton's evident desire for a better relationship. That said, Mr Singh admits to an acute awareness of the challenge to India's own diplomacy posed by the tests. As an energy-poor country, it needs to collaborate with others in the civilian nuclear field. The ability to reassure on the proliferation front is thus

vitaly important, especially since India - as a declared state - cannot be part of the non-proliferation treaty (NPT), which governs exchanges of technology.

Battling Anwar takes the stand at last

By Sheila McNulty in Kuala Lumpur

After five months behind bars, Anwar Ibrahim, the sacked deputy prime minister of Malaysia, is gaunt and pale, his hair visibly thinning. But when he was able yesterday finally to take the stand and defend himself against almost four months of prosecution charges, the confident, even cocky, spirit that once embodied the second most powerful man in

Malaysia shone through. Mr Anwar briskly made his way from the wooden cage at the centre of the courtroom - in which he had been confined - to the witness stand in front of the judge. When asked his address, he joked that it was the prison in which he is being held. Supporters, human rights observers and journalists in the public gallery duly laughed.

for. Mohd Abdullah, attorney general, took over the prosecution and succeeded in convincing Justice Paul, the High Court judge, to bar the defence attorney from pursuing questioning trying to prove Mr Anwar was the victim of a conspiracy by those he crossed in investigating corruption.

people," Mr Anwar said. "This is because the committee has accepted so many complaints on government mismanagement, bribery - including accusations involving ministers, senior officers and even the prime minister himself." Mr Mohd insisted the committee's work was irrelevant.

thousands of Malaysians against Mahathir Mohamad, the prime minister, and subsequently beaten by police. Mr Anwar is charged with sexual misdeeds and related abuse of power. He says the case is to punish him for becoming a potential challenger of Dr Mahathir's 18-year reign. Hundreds of Malaysians stood outside the courthouse once more to protest against the case, which has divided the nation.

Asian crisis places health of Singapore hospitals at risk

Sheila McNulty explains why the country's private health sector is suffering

In the elevator of the Thomson Medical Centre in Singapore, there is a picture of a stork carrying a notice detailing the fees for a range of birth delivery options in the maternity wing. That way expectant parents on the way in get to know exactly what they will pay on the way out.

region, generating nearly \$83bn (US\$1.5bn) in annual turnover, with patients arriving from as far away as India. The government has committed large sums toward its development, with latest data showing it invested \$84bn in 1997, 3.8 per cent of gross domestic product.

restoring the competitiveness Singapore lost when regional currencies depreciated far further than its own) will provide further relief to the industry this year, considering that the bulk of the private hospitals' operating costs are in staff.

Mr Lee acknowledges that the crisis may have lost Singapore some patients for ever. "Some people may realise they have good enough care in their own countries," he says. They may only come to Singapore for a higher level of expertise when needed. "Eventually, we will have to regionalise to tap into patients in their own countries."

Mr Yeo says the public sector will concentrate on maintaining its hub status by continuing to build Singapore's health care expertise by investing in the training of doctors and specialists and doing research.

Exciting News! SPECIAL DELIVERY PACKAGE. Table with columns for Special Delivery, Annual Delivery, and Elective Caesarean, listing prices for various services.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

Table showing growth rates for narrow and broad money, interest rates, and equity market yields for the United States, Japan, Germany, France, Italy, and the United Kingdom from 1989 to 1999.

Now the economic crisis has helped reduce the number of foreign patients in Singapore's private hospitals from 25-35 per cent of total patients to 15-20 per cent, while also pushing the usual 65 per cent occupancy rates below 60 per cent.

At a time when retrenchments and business failures are commonplace in the region, Yeo Cheow Tong, minister of health, says the public facilities are heavily occupied at the expense of private institutions.

"The challenge is for them to ensure they are able to review charges and ensure they are not over-pricing themselves," Mr Yeo says. He seems confident the private hospitals will continue trying to meet that challenge. "Nothing stimulates creativeness like the need for survival."

Monthly growth rates show the percentage change over the corresponding period in the previous year, and are possible across otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous post-German series. Monetary data supplied by DataStream, survey data supplied by Eurostat, interest rates by Reuters, and equity market yields by DataStream. Equity market yield period averages of the gross domestic product in the relevant FTA world table.

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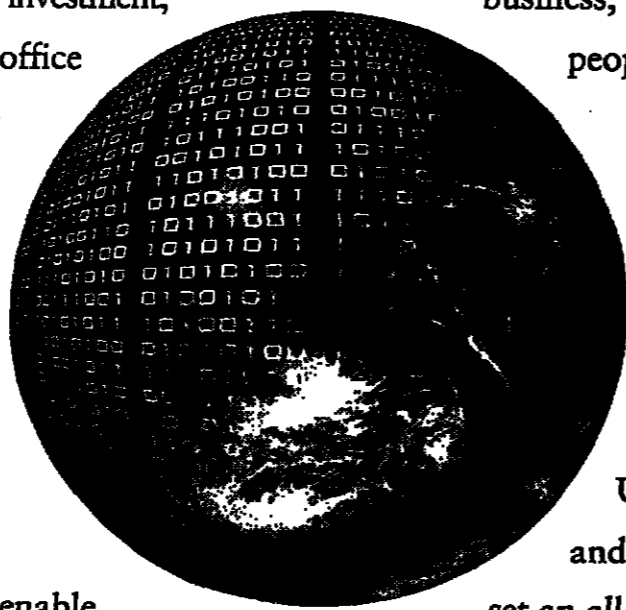
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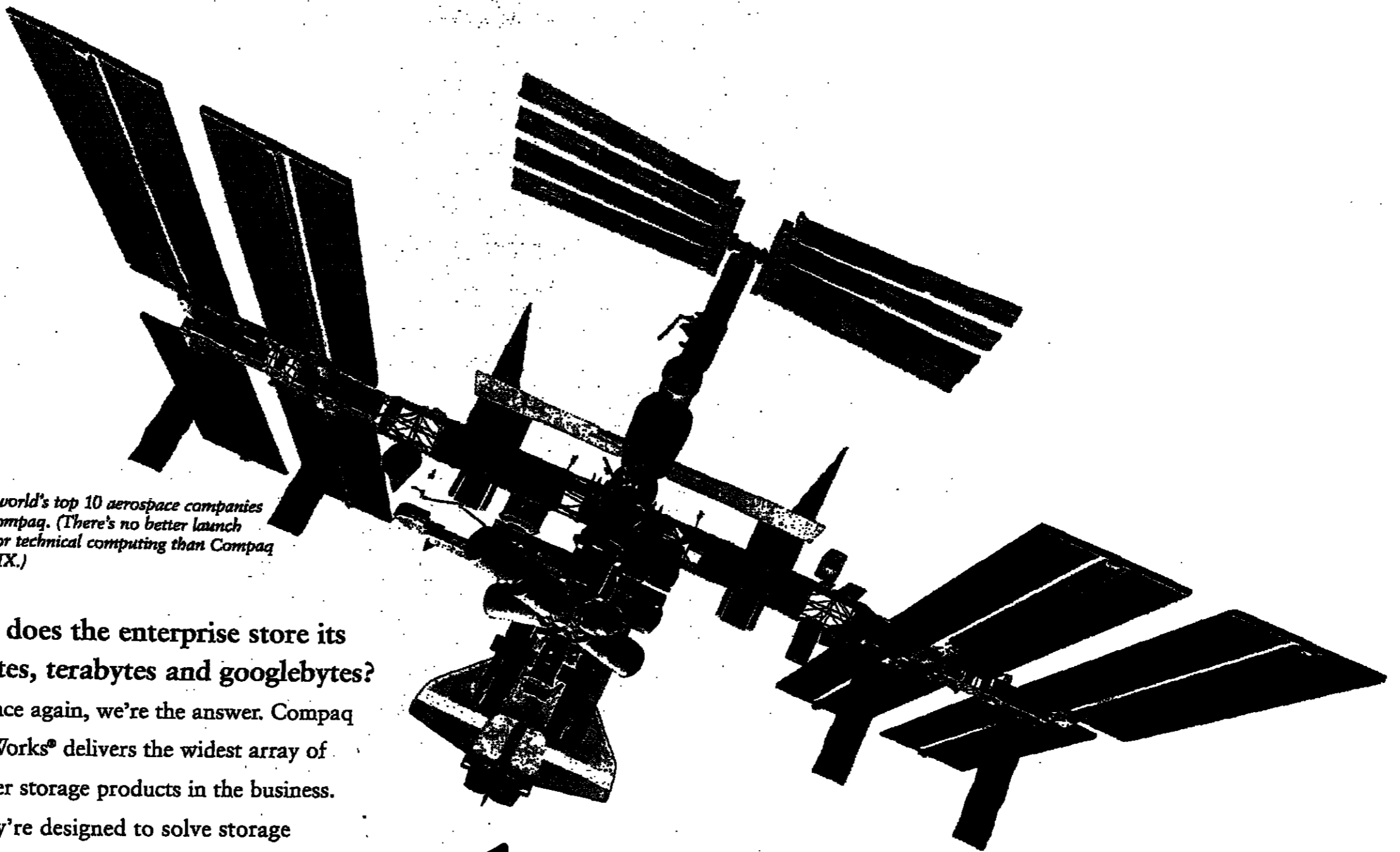
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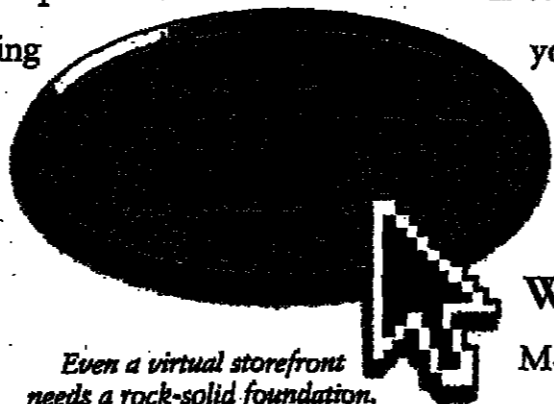
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THE AMERICAS

IMPEACHMENT PROSECUTORS' APPEAL FALLS ON DEAF EARS AS SENATORS FOCUS ON DRUMMING UP SUPPORT FOR CENSURE MOTION

# Republicans in plea to convict Clinton

By Mark Suzman in Washington

Republican prosecutors yesterday made a final, impassioned appeal to the Senate to convict President Bill Clinton and throw him out of office, insisting he had committed grave, impeachable offences in covering up his affair with Monica Lewinsky.

In a series of brief closing statements, the 13 trial "managers" from the House of Representatives repeated their argument that Mr Clinton had committed perjury and obstructed justice. They warned that if he was not convicted the constitution would be seriously damaged.

James Sensenbrenner, a Republican congressman from Wisconsin, said that the prosecutors were not pursuing a political vendetta against Mr Clinton, but believed in the need to protect the rule of law in US society.

"The impact of allowing the president to stand above the law will be felt for generations to come," he warned.

But the assembled senators appeared more interested in planning what should follow Mr Clinton's expected acquittal than listening one more time to a recital of the allegations against him. With both charges expected to fall well short of the two-thirds majority required for conviction, Democrats are trying to drum up Republican support for a censure motion that would allow the Senate to condemn Mr Clinton's behaviour even if they do not remove him from office.

Tom Daschle, Senate minority leader, said he hoped to be able to bring up the censure proposal as soon as the trial ended. However, under the body's complex procedural rules that would require unanimous consent and at least one Republican - Phil Gramm of Texas - has warned he would try to block any such attempt on the grounds that it was unconstitutional.

The White House said that any decision about censure was the prerogative of the Senate and that it would not try to interfere. Mr Clinton's lawyers also indicated that they expected to keep their closing arguments - which were due to follow the prosecutors - as short as possible.

The Senate is expected to begin deliberating the case tomorrow with a final vote expected as soon as Thursday.

Although Democrats and some Republicans favour making the proceedings public, it remained unclear yesterday whether a formal proposal to do so would be approved by the full Senate.

Two senators - Pat Leahy of Vermont for the Democrats and Ted Stevens of Alaska for Republicans - missed the closing arguments to join the US delegation to King Hussein's funeral in Jordan.

However, they were expected to be back in Washington in time for the start of final deliberations this morning.

NEWS DIGEST

US DRUGS STRATEGY

## Clinton outlines plan to halve problem by 2007

The Clinton administration yesterday outlined a plan to halve the US's drug problem by 2007. Vice-president Al Gore said the strategy would provide hope for youngsters, treatment for prisoners and would crack down on traffickers.

Mr Gore said drug use by adults was half its 1979 level "but when drug dealers still roam our streets and rob our children of their dreams, and drug-related crime still ravages so many of our neighbourhoods, we know that we have barely begun."

The plan includes nearly \$16bn to be spent this year by the federal government. In a message to Congress, President Bill Clinton said that among the positive signs was a growing view among young people that drugs were risky, and a continuing decline in cocaine production overseas.

The five parts of the administration plan are educating children, decreasing the addicted population, breaking the cycle of drugs and crime, securing US borders from drugs and reducing the drug supply. AP, Washington

VENEZUELA CORRUPTION

## Chávez reforms security force

Hugo Chávez, who has been Venezuela's president for only a week, yesterday launched an overhaul of the national security force in an early effort to fulfil his campaign pledge of ending corruption and wasteful spending in public institutions.

The state security force, Disip, yesterday withdrew some 400 police officers largely acting as personal bodyguards and chauffeurs for politicians and former public employees, some of them Mr Chávez's political adversaries.

Among the congressmen stripped of their personal details is Henry Ramos Allup, head of the congressional faction of the social democratic Acción Democrática (AD) party, which Mr Chávez has accused of corruption and mispending public funds during decades of government.

The Chávez government insists the move will save several million dollars annually and forms part of its plans to cut spending and bureaucracy. Yet many, particularly in the business community, fear Mr Chávez's direct confrontation with political parties and elites could be a source of instability in coming months. Raymond Collin, Caracas

FILM DISTRIBUTION

## US to probe studio tactics

The US Justice Department is investigating film distribution tactics used by leading studios to capture big opening weekend audiences and generate the headlines which attract even more viewers in the following days and weeks.

Department officials said letters sent to the studios and cinema chains last week were the first stage of a probe into "possible anti-competitive" practices.

The marketing ploys include the granting of exclusive exhibition rights in specific regions, and package deals in which a cinema chain can show a likely hit if it also agrees to screen films with a less certain future.

The department letter, which asked for details of deals over the past three years, also asked for information about the studios' financial interests in cinema chains. The questioned practices have evolved in recent years as news stories of box office reverses - big numbers are commonly interpreted as signalling a hit - have tended to supersede critics' reviews as the main factor influencing consumers' choices.

Specialist and some consumer media now use early ticket sales data to declare films hits or misses within days of their launch. As a result, the traditional definition of a "wide" opening - on 800 or more screens - has now expanded to encompass 2,000 or more screens. Christopher Parkes, Los Angeles

FINANCIAL STATEMENTS

## Stringent safeguards urged

The boards of American companies should adopt more stringent safeguards to ensure the quality of their financial statements, a high-level panel set up by Securities and Exchange Commission said yesterday.

The new controls have already received strong support from the New York Stock Exchange and the National Association of Securities Dealers, which operates the Nasdaq stock market, making it likely that companies will eventually be forced to follow them.

The proposals mark the latest phase in the campaign by Arthur Levitt, chairman of the Securities and Exchange Commission, to boost the quality of American financial statements.

Yesterday, a committee set up by the SEC last September produced 10 recommendations for how companies should set up and run their audit committees - the board-level groups whose job it is to make sure that financial statements are complete and accurate.

These include a requirement that all members of the committee should be totally independent from the company, and a rule that members of the committee should be "financially literate". Richard Waters, New York

## Ottawa pact puts Quebec further out on a limb

By Edward Alden in Toronto

The unravelling of Canada's already fragile federation could prove to have been hastened last week by a move specifically designed to tie the provinces closer to Ottawa.

The federal government and the nine English-speaking provinces signed a three-year pact spelling out rules for federal and provincial co-operation on social programme spending. While not a formal constitutional amendment, it will have the identical effect of setting out the rights and obligations of the two levels of government in some of the most important areas of public policy.

But French-speaking Quebec refused to be part of that arrangement, calling it an unwarranted extension of Ottawa's authority into provincial jurisdiction.

The province once again finds itself isolated from the rest of the country, much as it was in 1982 when it refused to sign the new constitution agreed by Ottawa and the other provinces. Even Jean Charest, Quebec opposition leader and a close ally of the federal Liberals, said he would not have signed the agreement.

The undertaking is meant to resolve a continued source of tension between the two levels of government: while health, education and welfare spending all fall under provincial jurisdiction, Ottawa collects the lion's share of tax dollars and has used that money to assert national priorities in those areas.

Quebec and the other provinces were particularly annoyed by the so-called millennium fund set up last year, which will offer federal aid directly to university students across the country.

Last week's deal, sweetened by Ottawa's promise to restore several billion dollars in cuts to healthcare spending, for the first time formally acknowledges the federal government's right to establish national social programmes without provincial consent. In the case of shared-cost programmes, at least six of the 10 provinces must agree before a new initiative is launched.

Quebec had demanded the right to opt out of such initiatives with full financial compensation, meaning that Ottawa would have been obliged to hand money over to the provinces without any influence on spending.

In winning assent for a stronger role from all but one province, Ottawa is now hoping to reverse what it sees as a gradual erosion of national standards.

British Columbia, for instance, several years ago enacted a three-month waiting period for out-of-province migrants who seek to collect welfare, a move meant to stem the flow of welfare recipients from colder parts of the country. That resulted in a clash with



Jean Charest: would not have signed agreement

Reuters

Provincial governments have also been restricting student loans to provincial residents who study within the province, discouraging university students from leaving their home province.

While the cracks are still rather small, Ottawa feared that without a clear agreement, the provinces would continue to enact measures favouring their own residents at the expense of other Canadians.

Robert Howse, a University of Toronto expert on federal-provincial relations, thinks the agreement is a

creative response to one of the fundamental dilemmas of Canadian politics: how to satisfy Quebec's demands for greater autonomy without severely weakening Ottawa's authority in the rest of the country.

But the day after the agreement was signed, Ottawa was not exactly holding out an olive branch to Quebec. Stéphane Dion, the federal minister of intergovernmental affairs, said if Quebec did not want to participate in future shared-cost programmes, it was under no obligation to do so. But neither, he pointed out, would Quebec get any money from Ottawa.

## Further blow for Mexico's PRI

By Andrea Mandel-Campbell in Mexico City

Mexico's Institutional Revolutionary party (PRI) lost yet another state governorship to the leftwing opposition in elections over the weekend, raising the prospect of defeat in upcoming presidential elections in 2000.

According to preliminary electoral results, Leonel Cota Montaño, candidate for the opposition coalition led by the Democratic Revolutionary party (PRD), held a 20 percentage point advantage over his leading PRI rival for the governor's seat in Baja California Sur. The more conservative National Action party (PAN), was nearly wiped off the electoral map, taking less than 7 per cent of the vote despite previous strong showings in the state.

Mr Cota Montaño, a former member of the PRI, defected to the opposition, taking several party supporters with him, after losing the PRI nomination for governor. The one-time mayor for the capital of La Paz is the third PRI member in recent months to go on to win a state governorship for the rival PRD after protesting about the party's undemocratic process for choosing candidates.

Despite assurances by President Ernesto Zedillo to make the PRI more democratic, party nominations have fallen prey to internal manipulation, say dissenting members. In Baja California Sur, Mr Cota Montaño claimed the PRI's candidate won the nomination with the tacit backing and financial support of the current governor. Nonetheless, the PRI managed to narrowly hang on to the governor's seat in the state of Guerrero in a second election on Sunday. The PRI's candidate, René Juárez Cisneros, led the PRD by a slim 4.6 per cent margin according to preliminary results.

The hotly contested elections have shown the first significant challenge to the PRI. The close results, however, raise the spectre of violence in the state, where electoral outcomes are often thought to be manipulated. The Popular Revolutionary Army (EPN), a guerrilla group based in Guerrero, has threatened to take up arms again if there is any evidence of vote tampering.

## Brazil suffers hangover after dollar borrowing binge

The sharp fall in the Real following last month's flotation has turned cheap consumer loans into an expensive nightmare with financial institutions facing huge losses. Richard Lapper reports

A binge of borrowing over the past few years by Brazilians with a new-found confidence in the future has landed the country's financial system with a multi-million dollar headache.

Attracted by the lower interest rate than that for the Real, middle class Brazilians borrowed US dollars liberally to pay for cars, fridges, freezers and personal computers. When the Real was forced to float last month and fell sharply, servicing the debt became a nightmare.

Now Brazil's financial institutions face huge losses on the estimated 40 per cent of their loans that are tied to the dollar in this way.

Celina Vansetti, senior banking analyst at Moody's Investor Services, the credit

rating agency, says non-performing consumer loans could amount to about 30 per cent - some R\$8bn (\$4.3bn) - of the total advanced by banks, financing and leasing companies. She says personal consumer loans and leasing amounted to about 3 per cent of gross domestic product at the beginning of 1998, up from 1 per cent in 1994.

Non-performing loans have been increasing since October 1997, when Brazil was first hit by the crisis in south-east Asia.

"The situation is now much worse than it was before," she says.

"People with dollar-indexed loans are very worried," says Marcelo Medeiros, a São Paulo-based lawyer, many of whose clients are seeking to renegotiate their loans.

From my point of view the more problems the better but many people are in difficulty."

before recovering to around R\$1.80 over the past few days.

Brazil's embryonic consumer finance market has grown rapidly in recent years.

The country's financial problems have been deteriorating for more than a year but until last month many Brazilians were still enjoying the relative economic stability ushered in by President Fernando Henrique Cardoso's Real plan in 1994.

With their currency loosely pegged to the dollar and inflation falling to its lowest levels for decades, newly confident Brazilians provided a ready market for banks, finance and leasing companies eager for opportunities to expand.

"Everybody was doing this as a business strategy," says Ms Vansetti, at Moody's. "Making loans was easy and many people went into dollar contracts."

Analysts say Brazilian

bank are well provisioned against losses but suggest that some smaller lenders - who have grown rapidly in this market segment - could be vulnerable.

To make matters worse for the banks, some Brazilian judges have ruled that borrowers can make repayments at the exchange rate that existed when they took out loans. And last week Brazil's government entered the fray when Renan Calheiros, the justice minister, presented a proposal to the Leasing Companies Association that contracts be frozen until April at the R1.21 to the dollar rate of the end of the year.

"The borrowers are saying we contracted debt based on certain assumptions and we are not going to pay for... this craziness," says Liege Andre, an insurance agent who has several leasing companies among her clients. "This will be a hell of a fight."



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GLOBAL CUSTODY ADRs SECURITIES LENDING TRANSFER AGENCY SERVICES GLOBAL CLEARANCE

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Factory out

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chemistry

STEP UP

Ireland parties

Trade unions step

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BRITAIN

THE ECONOMY POOR PERFORMANCE MAY HAVE UNDERMINED OVERALL GROWTH IN FINAL QUARTER OF LAST YEAR

Factory output falls in December

By Richard Adams and Christopher Adams

A dismal December for the manufacturing sector may have undermined overall economic growth during the final quarter of last year. Factory output fell 0.6 per cent in December, compared with a year earlier, according to the Office for National Statistics.

Garry Young, senior research fellow at the National Institute of Economic and Social Research, said the figures pointed to slower growth in the fourth quarter than the initial 0.3 per cent increase in GDP estimated by the ONS.

The December revision means that 1998 saw the first year-on-year fall in the sales price of manufactured products in the UK since records began in 1968.

The buoyant performance - the biggest increase since May last year - was helped by bargain-hunters as steep discounting in the New Year sales attracted reluctant shoppers.

BASF chief aims to get the chemistry right in shake-up

Don Yorborough is using technology and empowerment to restructure working practices at the English plant. Chris Tighe talks to him

Many UK plants face the problems of over-supply and price pressures that have prompted BASF, the German chemicals company, to undertake a business process re-engineering project at its site in north-east England. It hopes the project at its Seal Sands site will secure its future despite tough global market conditions for its product, acrylonitrile.



Hard-headed: Don Yorborough says the changes leave no room for management dissent

anxiety is mixed with other tensions. In addition to the redundancies, the familiar jobs hierarchy is to be replaced by "process owners", "coaches" and self-directed teams of employees.

At Seal Sands Mr Yorborough found a site that had made multi-million pound losses for the past two years - BASF declines to reveal how much - and was next to do so for the next three.

managers to the US for a week's training. Any lingering doubts over the process among the managers were ironed out in June. "Had they not agreed, they would have had to leave the management team," Mr Yorborough says.

Ireland parties snub call for US mediation

By John Murray Brown in Dublin and Jenny Burns in London

The British government yesterday launched a series of meetings with Northern Ireland political parties to seek a formula to end the disputes over paramilitary arms that threatens to derail the peace process.

resolve outstanding differences. Mr Mitchell, a former Democrat majority leader in the Senate, chaired talks that led to the April 1998 peace agreement.

rejected by Gerry Adams, president of Sinn Féin, the political wing of the Irish Republican Army, and David Trimble, first minister in the new administration and leader of the DUP.

"Finally discharge their obligations until the last minute". But he said it was important the two governments increased the pressure on the republicans ahead of the March 10 deadline for transferring powers to the new institutions.

Trade unions step up pressure for euro participation

By Robert Taylor, Employment Editor

The question of UK participation in the euro "will become increasingly pressing", says John Monks, the general secretary of the Trades Union Congress, in a forthcoming report on preparing the UK for the common currency.

The report also warns that "any attempt by the UK to engage in competitive devaluation of the pound against the euro would attract heavy reactions against us irrespective of obligations under EU single market rules and would in turn undermine further our attractiveness for inward investment, which is already weakened by our non-participation in the first wave".

arrival of the euro will intensify the development of social policies designed to protect workers and tackle unemployment. It also believes moves will be made towards Europe-wide collective bargaining. "Cross-border areas are likely to be among the first to see the effects of the introduction of the euro on wages," says the report.

parent and this will affect workers in European multinational companies. The TUC recognises "differences in productivity levels and in the rate of productivity increases between countries, regions and sectors will feature in European wage developments", so it will be hard to predict the pace of Euro-bargaining. But the TUC believes UK trade unions must prepare themselves for this.

Interest rate cuts boost fund managers' optimism

By Jane Mathison, Investment Correspondent

Fund managers in the UK have become markedly more optimistic about the domestic economy, largely as a result of falling interest rates.

A third of UK managers surveyed in a poll published yesterday by Merrill Lynch, the US investment bank, believe the economy will improve over the coming year. This compares to a low of 3 per cent in September.

Trevor Greetham, global strategist at Merrill Lynch, said: "The agenda is moving very rapidly away from whether there will be a recession towards how strong the upturn will be."

The survey - of UK managers with total assets of £1,337bn (£2,192bn) - was carried out by Gallup, the market research group, just before last week's 50 basis point cut in interest rates.

The base rate cut is unlikely to have been enough, according to most of the fund managers. The consensus forecast for rates next year is 5.1 per cent, down from 5.5 per cent today.

The survey covered 297 institutions worldwide, with assets totalling \$6,282bn. It found increased levels of economic optimism around the world over the past month.

Perhaps most significantly, eight out of 10 US fund managers expect last month's Brazilian devaluation to have no impact on domestic growth and corporate earnings in the US. This confidence suggests fund managers believe the US stock market's ability to shrug off turmoil in Asia and Russia will be repeated closer to home.

"US managers are beginning to think the US is immune to everything," said Mr Greetham yesterday.

In contrast, 38 per cent of the fund managers questioned in Japan thought Brazil would have a significantly negative impact on the US economy.

The average earnings forecast for UK companies in 1999 has risen from 0.8 per cent to 1.5 per cent in the past month.

Fund managers expect this to rise to 5.3 per cent next year. The number of UK fund managers expecting an upturn in the economy is still down from the beginning of 1997, however. Few fund managers, 6 per cent, expect a rising inflation rate in the UK.

NEWS DIGEST

ROYAL COURT OF JERSEY

Trust chief jailed for 5 1/2 years after admitting fraud

A trust administrator who defrauded clients of £2.75m (\$4.5m) over 12 years was jailed for 5 1/2 years yesterday by the Royal Court in Jersey, the biggest of the Channel Islands between England and France. Raymond Bellows, 65, pleaded guilty to 27 charges of fraudulent conversion and one of obtaining money by false pretences. The court heard that Mr Bellows used the money to fund his lifestyle and invest in a number of unsuccessful schemes, including a Swiss hotel in Glarus which has since failed. The court heard that Mr Bellows had control of clients' funds and was able to authorise payments from their accounts. He took £5.1m from 42 client trusts and companies, using half the money to restore some of the defrauded accounts. His scheme was discovered by Clive Guitou, co-director, in 1996 but that did not stop Mr Bellows obtaining a further \$500,000 by false pretences from the Midland Bank the following month. He told the bank he needed the money to repay a loan used to invest in a book and CD-Rom business. In fact, he used it to repay a client account he had defrauded in an attempt to avoid detection. The court said that the offshore centre's reputation and integrity were of paramount importance. Mr Bellows' counsel asked for a sentence of five years saying his clients' age, previous good character, and full co-operation should be taken into account. Philip Jaune, Jersey

ROYAL AUTOMOBILE CLUB

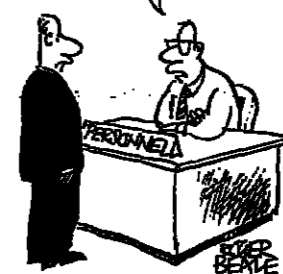
Legal actions 'may deter bids'

Dissent members' legal actions against the Royal Automobile Club could deter some companies from bidding for its motoring services arm, sources close to the deal said yesterday. Five legal actions are under way against the RAC - four in the UK and one in the US - by overseas and retired members and widows of members. They are angry at being excluded from a payout of up to £35,000 (\$57,400) from the disposal of the RAC's motoring services division. This could mean the RAC being forced to settle for a stock market listing valuing it at an estimated £330m, compared with £400m or more that a trade sale might be expected to raise. The RAC last week unveiled plans to seek a listing, while continuing to seek a trade sale. A ruling in the Monopolies and Mergers Commission has effectively ruled out a sale to Cendant, the US business and consumer services group. Cendant would have been forced to sell its Green Flag motoring arm, defeating the object of purchasing the RAC business. Charles Batchelor, London

OCCUPATIONAL PENSIONS

Study highlights jobs risk

Men with final-salary occupational pension schemes run a greater chance of being thrown out of work in their late fifties than those without, a study of unemployment among older men has found. "Occupational pensions are associated with lower employment rates among people in their 40s, 50s and 60s," says the study from the Centre for Analysis of Social Exclusion at the London School of Economics. "Pension scheme membership makes it more likely that people on higher earnings will be offered early retirement by employers trying to reduce the costs of making salary-related pension contributions," the study concludes. "People with above-average wages but no occupational pension have the lowest risk of being displaced." The sharp decline in employment among the over 55s - 40 per cent now in the UK are without work - means pension provision is being hit two ways: people are progressively living longer and therefore needing more retirement saving just as working life, and thus the time to pay for pensions both publicly and privately, is contracting. Nicholas Timmins, London



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CAR IMPORTS

Lada poised for comeback

The Lada car is to return to the UK this year after two-year absence. Thanks to improvements in car design and the devaluation of the rouble, AvtoVAZ, the giant Russian manufacturer, believes the Lada is ready for a comeback. AvtoVAZ sold more than 20,000 cars a year in the UK in the 1980s, before sales collapsed in the face of competition. AvtoVAZ said the new VAZ 2110 model would be exhibited at a motor show in London in June. The first Lada was sold in the UK in 1973 and enjoyed a cult following among frugal drivers. But the Lada's rapidly-aging design and reputation for unreliability turned it into a comedy legend. John Thornhill, Moscow



THE BANK OF NEW YORK

Vertical sidebar containing various financial news snippets and advertisements, including 'NEWS DIGEST', 'STRATEGY', 'CORRUPTION', 'DISTRIBUTION', 'STATEMENTS', 'INVESTMENT', and 'NEW YORK'.

## INFORMATION TECHNOLOGY

TIM JACKSON  
ON THE WEB

# Healthy margins in the long run

Internet retailers that survive the coming consolidation of the sector should reap substantial rewards

Unless you are an accountant, you may be tempted to stop reading right here. But pause before you do so. The valuations of many internet businesses, particularly those that use the web to sell things to consumers, depend on two assumptions: galloping growth as far as the eye can see, and gross margins that sustain or improve over time.

From Amazon.com downwards, many companies have convinced investors that their inability to make money now does not matter - because it is easier to build a big, profitable business from one that is big but unprofitable than from one that is small but profitable.

If their ability to deliver acceptable long-term margins is in doubt, however, internet retailers look like an unattractive investment - because the expected future stream of earnings on which all share prices depend suddenly begins to look a great deal smaller.

A growing number of commentators have become doubters. They argue that as the internet matures, even retailers as strong as Amazon.com will find it impossible to sustain current margins, let alone increase them.

Support for this pessimistic view can be

found at the web site [www.onsale.com](http://www.onsale.com). Onsale, a leading online auctioneer, enjoyed one brief quarter of profitability immediately before it went public in spring 1997, but has not made money since. The company's latest approach to improving its margins is a new service called "atCost", in which the company sells products to customers at its own cost price, as guaranteed by a big accounting firm, adding on only a "processing fee" of up to \$10 per item which it claims represents its profit on the transaction.

To be fair, it isn't quite as cost. Onsale should also be able to squeeze some margin from a 2.4 per cent credit-card surcharge (compared with 1.6 per cent or less for many big retailers), from advertising on its web site, and from full-rate UPS shipping (compared with the heavily discounted prices paid by customers of its size).

Another online retailer, Buy.Com, has abandoned the quest for traditional retail margins altogether. Instead, the company sells a range of products, from books to computers, effectively at wholesale prices, making its money from web advertising and from fees paid by the distributors to whom it channels fulfilment of customers' orders.

Buy.Com's unusual model has been rewarded by a quick increase in sales - the fastest in history, the company claims - and an equally quick increase in the price venture capitalists have paid for its shares. Softbank Holdings, which

OF COURSE THE STUFF WE SELL IS JUNK - WE CAN'T AFFORD DECENT STOCK AND A DECENT WEBSITE DESIGN



has many successful online investments, acquired 10.25 per cent of the company for \$20m last August through an affiliate, and then paid \$40m for another 9.9 per cent barely a month later.

Do businesses like these prove that retail margins on the web will go the way of charges for public toilets? Not necessarily. It is true that these two companies are pioneering a new business model, where the inventory stays with the wholesaler and the retailer is merely an aggregator. But this is little different from modern department stores, which are not so much retailers as property companies that rent out highly priced branded space to multiple boutiques.

Web investors need to remember two key underlying facts. First, the barriers to entry in web retailing are high and rising. Except for a tiny number of ideas that are new enough to get free publicity, most new web businesses need to spend heavily on marketing to be heard above the background din.

Second, customers care about more than just price. Consistently good service and easy web site navigation are both expensive and difficult to achieve. Buyers will give a new retailer only a matter of seconds before losing patience with bad page design; and two orders where the package fails to arrive on time are usually enough to lose an account.

On the web, brand takes

the place of geographical proximity. When you want to buy a pack of Frosties at midnight, you are more likely to buy from the local convenience store than to scour the entire city looking for the cheapest cereal. Likewise, someone who wants a book in a hurry will be more likely to buy from a web site whose name they remember, like Amazon.com, than from a slightly cheaper competitor whose delivery promises may not be met.

To be fair, buyers are much more price sensitive when buying occasional big-ticket items; that's why margin erosion will probably always be more intense on computers than books.

But as I see it, the worries about web retailers' margins are evidence of an accelerated move through the typical life cycle of a new service, selling over the web, is now being followed by intense price competition. Market consolidation will not be in full swing until large numbers of e-commerce businesses shut after burning through tens of millions of dollars of investors' money.

But when consolidation is complete, the cost of setting up a web retailing operation will probably have risen from the tens to the hundreds of millions of dollars. And the margins of the fighters left standing might not be too bad.

[tim.jackson@gobax.com](mailto:tim.jackson@gobax.com)

## INFORMATION TECHNOLOGY BRIEFS

## Easy-to-read display for Palm challenger

Palm PCs running Microsoft's Windows CE operating system represent a potential challenge to 3Com's highly successful Palm unit which dominates the pocket PC market.

Now Microsoft has added colour support to its Palm PC operating system, enabling Hewlett-Packard to launch the Jornada 420 which it claims is the first Windows CE palm-sized PC to have an easy-to-read colour display.

HP says the 256-colour, 240 x 320 pixel screen markedly improves readability over previous monochrome models and that its light weight, 250g (8.81oz) and compact size - 13cm by 8.1cm by 0.9in - allows it to be carried easily.

A configurable start button permits quick, single-handed use, and a transparent flip-up cover protects the screen. The Jornada 420 is expected to cost \$399 (\$658) when it goes on sale in some European countries next month.

[www.hp.com/jornada](http://www.hp.com/jornada)

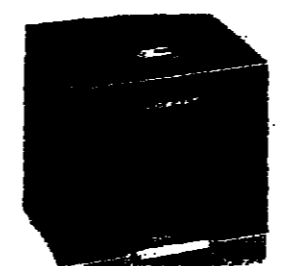
## Quick set-up microserver

As corporate intranets and use of the internet expand, the demand for low-cost servers and server

appliances continues to grow.

Cobalt Networks, a start-up company in Mountain View, California, founded in 1996, spotted the opportunity for a range of microserver machines designed to "offer a complete, easy-to-use set of communication and collaboration services at truly affordable prices".

The company's new Cobalt Cube 2 comes pre-configured with the Linux 2.0 operating system which the company claims means it can be set up from its box in under 15 minutes. It comes with application software including Apache



Net guru: Cobalt Cube which can be set up in 15 minutes

1.3 web server together with e-mail, file sharing and discussion group software.

Other out-of-the-box Cobalt machines include an ISDN Cube which includes an ISDN router communication device and Cache Cube designed to optimise available bandwidth for internet service providers, businesses and schools.

[www.cobaltnet.com](http://www.cobaltnet.com)

## Simpler life on the home front

"Home control" systems for switching domestic appliances on and off remotely or on a timer have been available in the US for some time and are used by an estimated 5m households.

The technology uses existing household electrical circuits so does not require any re-wiring. A company called Home Control has launched three starter kits in Europe.

The Take Control PC is aimed at the 8.4m households in Britain who own a home PC and enables the user to build "macros" to control devices using a PC-based program.

The Easy Life remote control allows the user to switch 18 appliances on and off while the Free Time controller looks like a clock radio and provides control over up to eight appliances. Further information from Corica Communications, UK: tel 01179493394, fax 01179493395

## Launch of CD duplicator

Making multiple copies of software or other digital material stored on a CD-Rom can be time consuming and difficult.

However LaCie, the French mass storage specialist, has launched a

generation of multi-purpose CD duplicators that simply require a single button to be pushed. The Dupli-121, for example, combines a standalone one-to-one CD duplicator, a multi-read 36x CD-Rom drive and a 4x/8x CD-R (writable CD-Rom) drive.

The machine takes just 18 minutes to copy a full CD. The Dupli-121 costs £700. [www.lacie.com](http://www.lacie.com)

## Organiser gains data input

Franklin Electronic Publishers, Starfish Software and Japan's Citizen Watch Company had a surprise hit when they teamed up to produce a credit-card-sized business organiser called the Rex PC Companion last year.

The Rex plugs into a portable PC's PC-Card slot or a docking station attached to a desktop machine in order to download contact names, phone numbers, appointments and other stored data which can then be read back while on the move.

However, the first generation of Rex devices lacked any facility to input data directly. For those that require this facility the manufacturers have now launched the Rex Pro. It costs £170 in the UK. [www.franklin.com/lex](http://www.franklin.com/lex)

Paul Taylor

## PEOPLE ON THE MOVE

## Fainé to succeed Vilarasau at La Caixa

The succession to the top executive post at La Caixa, Spain's biggest savings bank, has been decided in favour of Isidre Fainé, assistant managing director for 16 years.

He succeeds Josép Vilarasau, the main architect of the Catalan group's recent expansion, who decided to retire from the post two years early and has been made chairman, a non-executive position.

He in turn replaces Juan Antonio Samaranch, the embattled president of the International Olympic Committee, who stood down to make room for him. Samaranch, who was appointed to the powerful Barcelona-based savings bank after the city won its bid to stage the 1992 summer games, insisted that the move was unconnected to the furor over alleged corruption involving IOC members.

Fainé, 56, who trained at Harvard and Barcelona's IESE graduate business school, came to La Caixa after a succession of senior posts in different banks. He is also chairman of motorway concession company Acesa, in which La Caixa is the main shareholder. His board posts include a vice-chairmanship at Telefonica, the telecommunications operator.

The managing director's post is a coveted one in Catalonia, where La Caixa enjoys a high profile not only through its dominant role in the banking sector but also because of its wide-ranging social, educational and cultural programmes.

Antonio Brufau, 50, who previously held the same title as Fainé, meanwhile becomes managing director of La Caixa's industrial interests. Brufau, who is chairman of Gas Natural, the gas group, is a relative newcomer at La Caixa - he joined from Arthur Andersen in 1988.

[David White, Madrid](mailto:David.White@madrid)

## CSFB snares Schneider chief

Didier Pineau-Valencienne, the veteran French industrialist and one of the few with a spell behind bars on his CV, has made his decision about life after Schneider, the electrical equipment maker he headed for 18 years.

He retires as chairman this month, having handed over the executive reins last week.

After sifting more than 10 international offers (but

none, apparently, from French companies), Pineau-Valencienne has opted to become the 10th vice-chairman at Credit Suisse First Boston, the Swiss-US investment bank.

Based in London, he will use his senior contacts to bring in mergers and acquisitions business for CSFB, which, as it happens, does not count Schneider among its clients.

Pineau-Valencienne made headlines in 1994 when Belgian authorities detained him in prison for 12 days after he went to Brussels to help an investigation into alleged financial misdoings at Schneider's Belgian subsidiary.

The investigation that led to the curious episode has never officially been closed but the authorities have been silent on the subject for three years.

These days Pineau-Valencienne travels as freely to Belgium as anywhere else.

[Clay Harris, London](mailto:Clay.Harris@london)

## McLure to build Pictet business

More than a century ago the Morgans, Mellons and Rockefellers set up their own banks to manage their American family fortunes. But these days even the world's wealthiest families balk at having to establish private banks to manage their family affairs and are seeking to outsource an increasingly complex task.

Morag McLure, a Scottish lawyer, has been hired by Pictet & Cie, the Geneva private bank, to expand its "family office" services into Germany, France, Italy and the UK. In the US there are 2,500 private "family offices" specialising in managing private fortunes and the concept is starting to catch on in Europe.

Pictet & Cie and Bank Julius Baer, of Zurich, set up their family offices last year to advise wealthy families on the management of their assets. Pictet is targeting families worth more than \$100m.

Pictet estimates that there are 250 families of those in Switzerland alone that fit its criteria. But it wants to spread its net wider and has recruited McLure, former head of trust and estate planning at Mercury Asset Management, to lead its discreet pitch for the world's billionaires.

Pictet's family office will provide a central port of call for families wanting advice on private wealth management services such as investment consulting, investment reporting and custody, succession planning, tax and financial planning and administration, and bookkeeping.

"Every asset manager around wants the business

of extremely wealthy families," says McLure. She sees one of her department's roles as relieving clients of a lot of the leg work of dealing with several different investment managers. "It is a bit like being a physician," she says.

[William Hall, Zurich](mailto:William.Hall@zurich)

## Johnsson steps up at Volvo

Volvo, the Swedish automotive group, has named Stefan Johnsson as its chief financial officer. Johnsson, 39, joined the group's executive committee last year as head of strategic and business development - a role he will retain.

Officials said that Johnsson was closely involved in the group's recent decision to sell the car arm, its largest business, to Ford of the US for \$1.65bn (\$8.5bn).

He is also understood to be playing a central role in Volvo's separate pursuit of Scania, its Swedish heavy truck rival. Last month Volvo took a near 13 per cent stake in Scania.

Johnsson succeeds Jan Engström, who last month became president of Volvo Bus. The reshuffle reflects a strategy by Leif Johanson,



McLure to join Pictet & Cie

Volvo chief executive, to move senior executives between operational and financial roles frequently.

[Tim Burt, Stockholm](mailto:Tim.Burt@stockholm)

## Rexam names PLM board

Rexam, the UK packaging and printing group that recently acquired Swedish rival PLM, has appointed a new managing director at PLM following the departure of Fredrik Arp, who had reservations about the takeover. The UK group said Lars Emilson, managing director of PLM's drinks can division, would succeed Arp.

The former PLM chief has been headhunted by Trelleborg, the Swedish mining, metals and rubber group, to become its new chief executive. Arp, 45, was widely expected to leave

PLM after questioning the synergies between the group and Rexam.

Rexam said Emilson, 57, would join a new five-man board at PLM. It would include Rolf Björjesson, Rexam chief executive, and the UK group's finance director Michael Hartrill. Björjesson was chief executive at PLM before joining Rexam in 1998.

## Stiefler joins Safeskin board

Jeffrey Stiefler, chairman and chief executive of International Data Response Corporation, has joined the board of Safeskin, the latex and synthetic glove manufacturer.

Stiefler, 52, is a former president and director of American Express. He has just led IDRC into a merger with fellow telemarketing and customer service outsourcing company TeleSpectrum Worldwide, which will form the seventh largest group in the industry when completed.

He is a graduate of Williams College and holds an MBA from Harvard Business School.

[Andrew Bounds, London](mailto:Andrew.Bounds@london)

## Moving places

● Joseph Anastasio, former managing director of J.P. Morgan's North American operations, has joined The Capital Markets Company as chief executive and chief client partner of its North American operations.

● Maarten Hulshoff, 51, chairman of the managing board of the NCM Group is relinquishing his position to take up a new appointment as chief executive of Rabobank International, part of the Dutch group. He will replace Rik van Slingelandt.

● AlliedSignal has formed a new European aerospace organisation, called Environmental Control Systems-Europe and has named Philippe Ancelle the organisation's vice-president. The group aligns AlliedSignal's European environmental control systems manufacturing operations into one business.

● Chase Manhattan has appointed Christopher Harvey a managing director in its global trading division. Harvey fills a newly created position as head of sales and origination for foreign exchange and derivatives in New York. Harvey was with J.P. Morgan for 15 years.

● Novell has appointed Elio Nemes vice-president for Europe, Middle East and Africa. Nemes joins from Sun Microsystems, where he was vice-president, sales operations for Europe, Middle East and Africa.



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Opinion

THE ARTS

MUSIC IN LONDON

The old meets the new

It is not enough just to put on a classical concert any more. There has to be a special selling point, as two major concerts at the Royal Festival Hall over the weekend showed.

On Thursday the Royal Concertgebouw Orchestra of Amsterdam came for the second of the concerts in its 1998/9 series. Though by no means the oldest, the orchestra is one of the most venerable in Europe and markets itself on tradition.

The programme comprised two major works by Brahms - the Violin Concerto and the Second Symphony - separated by Schoenberg's Five Orchestral Pieces Op.16 to represent the continuation of the Germanic musical line. As it happened, the Schoenberg was the best of the bunch. Riccardo Chailly, the Concertgebouw's chief conductor, is a perfectionist and the more complex the music, the more impressive the results. Listening to the beautiful sounds produced here in the name of Schoenberg, it is hard to hear how his music could ever have been thought difficult. No more out-of-tune ensemble, no more scraping violins or over-loud rasping brass: Chailly and the Concertgebouw turned each of the five pieces into a model of cool, objective precision.

Unfortunately, they did the same to the Brahms, too. When Chailly arrived in Amsterdam, the players felt he was working against the classical tradition they had in their bones. Ten years on, the players now wear Chailly's Italianate style - like a sleek, high-quality Milanese suit - as if it was made to measure. The result was perfectly polished, but without depth, or passion, or Germanic wholeheartedness, a long way from the stirring Brahms that Christoph Eschenbach gave us in the First Symphony in the same hall a week earlier. In the Violin Concerto, Vadim Repin balanced sweetness and strength nicely, but only broke out of the prevailing mood in his choice of an unusually flamboyant cadenza.

On Saturday, the London Philharmonic's concert was anything but traditional. Under the trendy umbrella title *Rosa - Classical Fusions*, most of the musical styles of the world were gathered: Caribbean calypso, passionate tangos, pensive Japanese *biutok* music and a big early-evening showing by Polyphony

Ekonda from the African rainforest. Nearer to home were the European equivalents, Celtic dance, Spanish flamenco etc. Where was the London Philharmonic in all this? Under Kent Nagano they played two works which claim links to the earth: Copland's *Appalachian Spring* and Stravinsky's *The Rite of Spring*, though it was ironic that Nagano's glib performance of *The Rite* had so little of the primitive about it. Even when it was skidding along at speeds far too fast, it failed to be exciting.

Surely the problem is that sophisticated 20th-century classical music retains only the most tenuous links to folk music of any kind, unlike pop or jazz. But maybe the public response shows there is a market for such hybrid promotions, and the London music scene is big enough for this and old-style tradition like the Concertgebouw.

Richard Fairman



One of the many postcards of West African tribal women (left) which influenced Picasso's imagery for works such as 'Les Femmes d'Alger', and, right, 'Nude with raised arms', 1908



The lens as servant to the master

William Packer explains how photographic references were essential to Picasso's inspired creativity

"From today, painting is dead" said the French artist, Paul Delaroché, in the 1840s, on first seeing a photograph. Some 70 years on, the young Picasso clearly felt much the same. "I have discovered photography," he said. "Now I can kill myself. I have nothing else to learn."

The fact is that, far from giving up in despair, painters began exploiting the new medium from the start, and have gone on doing so to this day, with artists from Degas and Bonnard to Warhol and Bacon merely conspicuous among countless examples. That Picasso, too, should have been one of them should hardly be a surprise. Indeed it would have been remarkable were he not, especially so given his voracious appetite for new materials, appropriated images, and any fresh means of expression.

If there is any surprise, it lies with the extent of his engagement with photography. At his death in 1973 he left an enormous trove of archival and photographic material, which has slowly been coming to light ever since. The fascinating exhibition now at the Barbican is a summary of the tripartite study, drawn from this mass of private material, which the Musée Picasso in Paris made between 1984 and '96. And if we emerge a little bemused, it is only because what is now so obvious has remained unrecognised for so long.

There is still the feeling in some quarters that resort to photographs for reference and ideas is something of a cheat, and no doubt there will be a certain pursing of lips among the Picasso-sceptics. But the camera is only a tool, and it is how the artist uses it to serve his purpose that counts. Far from denying it can at times be downright mendacious, and the artist must understand just what it can and cannot do. And in following Picasso through the labyrinth of his life-long interest, we soon realise that he was never photography's creature, never over-reliant or literal in his response - even though his transcription of an image could be very close. But we always have the sense that the judicious exploitation of material leads the artist not back to the photograph, but to the art.

The show is arranged by categories of interest and practice - the use of direct photographic reference such as post-cards, old-master reproductions and personal photographs as a source of imagery; the practical record of work in progress, and studio interiors, that together might lead to further development in the work; images of self and friends; technical experiments with the medium of photography in its direct relation to painting, print-making and collage; and, finally, a chronologically-arranged material from

magazines. Then there are the collaborative exercises with working photographers and film-makers who were also friends - Brassai; Dora Maar, his mistress of the later 1930s, who recorded the progress of "Guernica"; André Villers and the paper cut-outs repeatedly re-photographed; Gion Mill and the drawings with a point of light in space; and, of course, Clouzet and the film they made together, *Le Mystère Picasso*.

While the show is not closely chronological, and certain practices recur throughout - even one of the very last of his paintings, c.1970, of an old man, is

taken, in the loosest and most fiercely expressionistic way, from a photograph - the importance of photography to him in his earlier periods is perhaps the more intriguing. In particular, it has always been accepted that Picasso was strongly influenced by the ethnographical collections he discovered when he arrived in Paris, by African tribal sculpture especially, and it has always been assumed that here he found his principal reference in developing the imagery for "Les Femmes d'Alger" around 1905 and '06. It is now clear, however, that his inspiration was in large part even more humanly direct, based

highly selectively upon an extensive set of postcard photographs of West African tribal women. Given the context, we see at once the unmistakable reference, and the creative liberties he took with it.

So it goes on. Here is his photograph of his first wife, the dancer Olga Khoklova, sitting elegantly cross-legged in the studio, and there the painting from it that he left unfinished (1918), so close in its particular coverings but critically altered in its shifts and emphases; here he is again, a marginal, ambiguous self-portrait silhouette in a tiny studio photograph, and there is the silhouette

again in the large, schematic "Studio" interior of 1929. Marie-Thérèse Walter, a later mistress, holding a beach-ball, poses on the beach at Dinard for a grotesquely abstracted surrealist figure (1929).

But more intriguing still are the faded, fragile images of studio interior and work in progress, full of atmosphere and mystery, post "Les Femmes d'Alger", from the Cubist period before the first world war. And in their formal disposition, with the clutter of the studio and the arbitrary overlapping of images upon the wall fracturing and refracting the actual, perceived space, these

images begin to take on something of the quality and purpose of the Cubist adventure itself. More than mere snapshot notes and records, they become, most curiously, integral to the work itself. Was Cubism then, purest of painterly enquiries, set in part upon what the camera by chance revealed, suggested? Perhaps indeed it was, and photography for Picasso "The Dark Mirror" of the exhibition's title, through which he would always look, to confirm and rediscover his work, and himself.

Picasso and Photography - The Dark Mirror; Barbican Art Gallery, The Barbican, Silk Street, London EC2, until March 28.

Fine Strauss without the sentimentality

OPERA  
ANDREW CLARK

Der Rosenkavalier  
Scottish Opera

Lifting the curtain on what promises to be a rich Strauss year, Scottish Opera's *Der Rosenkavalier* sets a standard that will be difficult to beat.

Anyone old enough to remember this company's previous staging with Elizabeth Harwood and Janet Baker, will have approached David McVicar's new production sceptically. But time is a strange thing, as Joan Rodgers's succinct patch of a Marschallin reminded us at the Theatre Royal, Glasgow, on Saturday. In McVicar's brilliantly imagined realisation, we find a performance that not only conveys a sense of tradition renewed; it also

plays tricks on our sense of time, as the evening slips by without a single longeur. It's an achievement of which everyone, not least the conductor, Richard Armstrong, can be intensely proud.

McVicar respects the Viennese setting without being slavish to it. His single set - a semi-circular interior of fading imperial grandeur, with just enough gaps to spark the imagination - shows how an impression of many splendoured opulence can be created on a shoestring. The stage has height and depth, and adapts itself perfectly to the needs of each act, wittily so in Fainal's *palais*, where the chairs are identical to Act 1, but with a *nouveau-riche* lacquer replacing faded gilt.

The abstract period flavour of Tanya McCallin's costumes blends naturally with this set-

ting, but there's also a hint of modern stylisation - as in the ladies' teased-out, topiary-like hairstyles (far better than powdered wigs) and Annina's black lipstick. Annina turns out to be this production's most original creation, and in a luridly insinuating performance, Joanna Campion very nearly acts everyone off the stage.

Where McVicar sets himself apart from other producers is his determination to filter out all sentimentality, parody and vulgarity: a high-risk strategy, given that these qualities have long been considered central to the work's charm. So there's no mugging in the first Mariandl episode, no comedy in the *l'esce* and no rustic testosterone in Peter Rose's squire of an Ochs. McVicar even insists on transforming the Marschallin's black page into an adult.

The result is a slow-burning Act 1 in which, nonetheless, the dramatic verisimilitude of each character is established. What McVicar seems to be telling us is that he respects the work's theatrical conventions, but is not interested in the clichés: *Rosenkavalier* has to be more than a pastiche to life in Act 2, the characters begin to flourish, and the scene is set for a dénouement of rare integrity.

McVicar has such an eye for visual style, and is so musical, that it comes as a shock to see how wide of the mark he is with Sophie. Lisa Milne has the bright soprano for the part, but she looks a frazzled frump. The presentation of the rose doesn't quite work: Sophie is too bedazzled to notice Octavian.

This is one of McVicar's true-to-life observations that can't quite live up to the true fiction of Strauss/Rotmansthal. But any Sophie would find it hard to compete with Rodgers's Marschallin, a woman young enough to boast a credible sexual appetite but old enough to behave with emotional maturity.

Rodgers's juicy soprano might not carry so well in a bigger theatre, (or with a less sensitive conductor), but her ability to caress the words proves just as fetching as her *decouillage* in the opening scene - where, to preserve her modesty, the stage direction could benefit from a little fine-tuning. What really distinguishes Rodgers's performance is its musical intelligence, the sincerity of her psychological development, and the dignity with which she sorts out everyone's problems at the end.

The leaner soprano and even leaner figure of Stella Doufexis Octavian provide the perfect counterpoint. The travesty proportions of this part are seldom so convincingly realised, and

Doufexis oozes natural talent. Rose's Ochs is less a blue-blooded buffoon, more an arrogant aristocrat trying unsuccessfully to sow some wild oats. Rose skates over the words in Act 1, and there's not a breath of dialect; but he emerges a different man after the first interval, and by Act 3 the character is endearingly three-dimensional. There's an entertaining double-act with his illegitimate son (Harry Ward), who - like Andrew Slater's Fainal and Phyllis Cannan's Duenna - is etched in unusually vivid colours.

The bedrock of the performance is Armstrong's thorough preparation of the orchestra and fingertip command of Straussian line. We may be used to a plusher string sound, but the myriad wind figures rarely come across as audibly as this, or the Act 3 passagework with such fiery accuracy. When will this conductor's contribution to opera in the UK win the recognition it deserves?

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION  
Rijksmuseum  
Tel: 31-20-673 2121  
Asser: Pioneer of Dutch photography. Nearly 200 photographs, including portraits and still lifes, made by Edouard Asser (1809-1894). The prints were produced by a variety of techniques with which Asser experimented before devoting his full attention to developing a method of photographic reproduction; to Mar 14

OPERA  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8971  
Carmen: by Bizet. New staging by Andrea Homoki, conducted by Edo de Waart. The title role is sung by Carmen Oprisanu; Feb 9, 12, 15

BERLIN  
OPERA  
Deutsche Oper  
Tel: 49-30-34384-01  
Faust: by Gounod. Conducted

by Sebastian Lang-Lessing in a staging by John Dew; Feb 12  
Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 13

BRUSSELS

La Monnaie  
Tel: 32-2-229 1211  
Lady Macbeth of Mtsensk. Conducted by Antonio Pappano in a new staging by Stain Winge, with sets by Benoit Dugardyn and costumes by Jorge Jara; Feb 10, 12

DALLAS

OPERA  
Dallas Opera  
Tel: 1-214-443 1000  
www.dallasopera.org  
La Bohème: by Puccini. Conducted by Antonello Allemandi in a staging by Mark Lamos, with sets by Michael Yeargan; Feb 13

GLASGOW

OPERA  
Theatre Royal  
Tel: 44-141-532 9000  
Scottish Opera: Der Rosenkavalier, by F. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 13

HOUSTON

THEATRE  
Houston Grand Opera.

Worham Center  
Tel: 1-713-227 2787  
www.hga.com  
A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade and Sheri Greenawald; Feb 9, 12, 14

LONDON

CONCERT  
Barbican Hall  
Tel: 44-171-638 8891  
Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J. Strauss, Mozart and Beethoven; Feb 11

EXHIBITION

Tate Gallery  
Tel: 44-171-887 8000  
Turner in the Alps: undertaken in 1802, this was Turner's first visit to continental Europe. The exhibition contains 68 works, revealing his initial impressions of the landscapes he encountered; to Feb 14

OPERA  
English National Opera, London Coliseum  
Tel: 44-171-632 8300  
La Traviata: by Verdi. Michael Lloyd conducts a revival of Jonathan Miller's staging. Cast includes Claire Rutter and Alan Opl; Feb 9, 12

LOS ANGELES

EXHIBITION  
Los Angeles County Museum

of Art  
Tel: 1-213-857 6000  
www.lacma.org  
June Wayne: A Retrospective. Survey of the artist's printmaking work from 1946 to 1998; to Feb 15

MANCHESTER

CONCERT  
Bridgewater Hall  
Tel: 44-161-907 9000  
Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J. Strauss, Mozart and Beethoven, with piano soloist Artur Pizarro; Feb 12

MOSCOW

CONCERT  
Conservatory Great Hall  
Tel: 7-095-229 8401  
Moscow State Symphony Orchestra: conducted by Gilbert Kaplan in Mahler's 'Resurrection' Symphony No. 2; Feb 9

MUNICH

CONCERTS  
Philharmonie Gasteig  
Tel: 49-89-5481 8181  
Klassische Philharmonie Bonn: conducted by Herbert Belsel in works by Mozart and Beethoven, with piano soloist Matthias Kirschner; Feb 12  
Munich Radio Orchestra: conducted by Leopold Hager in works by J. Strauss; Feb 14  
St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Prokofiev and Ravel; Feb 11

EXHIBITION  
Haus der Kunst  
Tel: 49-89-212270  
Angelika Kauffman (1741-1807): retrospective of works by the Swiss decorative artist, who was a founder member of London's Royal Academy. Includes paintings, drawings, prints and porcelain; to Apr 18

NEW YORK

DANCE  
New York City Ballet, New York State Theater  
Tel: 1-212-870 5570  
Celebrating Five Decades of Repertory: continuing 50th anniversary celebrations; Feb 9, 10, 11, 12, 13, 14

EXHIBITION  
Guggenheim Museum  
Tel: 1-212-423 3500  
www.guggenheim.org  
Picasso and the War Years 1937-1945: more than 75 works - paintings, sculpture and works on paper - which together explore Picasso's response to the period which began with the Spanish Civil War and ended with the liberation of France. Includes major public and private loans; to May 9

OPERA  
Metropolitan Opera, Lincoln Center  
Tel: 1-212-362 6000  
www.metopera.org  
Moses and Aaron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip

Langridge and John Tomlinson; Feb 11

PARIS

CONCERTS  
Salle Pleyel  
Tel: 33-1-4561 6589  
Orchestra de Paris: conducted by Frans Bruggen in works by Bach, Mozart and Mendelssohn; Feb 10, 11

Théâtre des Champs Elysées  
Tel: 33-1-4952 5050  
Orchestra National de France: conducted by Jerzy Semkow in works by Haydn, Mozart, Mendelssohn and Schubert; Feb 14

EXHIBITION  
Musée du Louvre  
Tel: 33-1-4020 5151  
www.louvre.fr  
Eternal monuments of Ramesses II: New Theban excavations. Display of the latest archaeological findings from the Egyptian pharaoh's tomb; from Feb 10 to May 10

OPERA  
Théâtre des Champs Elysées  
Tel: 33-1-4952 5050  
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Davis; Feb 10, 12, 15

VIENNA  
CONCERT  
Musikverein  
Tel: 43-1-5058 6810

San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Mendelssohn and Prokofiev; Feb 9

WASHINGTON

OPERA  
Washington Opera  
Tel: 1-202-295 2400  
www.dc-opera.org  
Boris Godunov: by Mussorgsky. Conducted by Isaac Karabchevsky in the widely-travelled Tarkovsky staging, revived by Stephen Lawless. Samuel Ramey sings the title role; Feb 13, 15

TV AND RADIO

WORLD SERVICE  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

CNN International  
Monday to Friday, GMT: 06.30: *Moneyline* with Lou Dobbs 13.30: *Business Asia* 19.30: *World Business Today* 22.00: *World Business Today Update*

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Organiser gains data input

Paul Taylor

Stiefler joins Safeskin boss

Moving places

COMMENT & ANALYSIS



PETER MARTIN

# Cut to the core

To survive BMW must concentrate only on its luxury cars or merge with a strong but ordinary mass-market business

The broader question behind BMW's spectacular boardroom bust-up is this: can specialisation, top-of-the-line businesses compete in the long run with ones based on a broader range of customers and products?

The conventional wisdom these days is no. A good big 'un, it is said, will always beat a good little 'un. And though BMW is, by most standards, a large company - revenues of over \$35bn, a workforce of 130,000 and output of 1.2m cars - it is still nothing like the size of competitors such as Ford, Toyota, DaimlerChrysler or Volkswagen.

This explains the way outside observers reacted to last week's bloodletting, which saw the two top managers leave. Bob Eaton, co-chairman of DaimlerChrysler, summed up the mood: "By Monday there will be at least three or four companies bidding for BMW," he said.

Today's conventional wisdom is that there are huge returns to size: financial firepower, technological depth, brand presence. Together, these make a well-managed large company unbeatable. Smaller ones have no choice but to merge.

If you want to be really big, you need a mass-market presence. Goodbye BMW, hello DaimlerChrysler, goodbye Goldman Sachs, hello Merrill Lynch and Citigroup. And so on.

Let us examine how this applies to BMW. It already has large enough volume to run world-scale car factories. Indeed, the minimum size of an efficient plant is coming down, thanks to automation and pre-assembly of components. So if BMW is in some sense too small, it cannot be for the traditional

reason of production efficiencies.

Perhaps the cost of developing a new model is so huge that smaller companies cannot sustain it? That may be so - certainly thinly resourced carmakers like the pre-BMW Rover, the pre-General Motors Saab and the pre-Volkswagen

Rolls-Royce were having difficulty refreshing their product lines quickly or imaginatively enough.

But again, it is hard to see how that applies to BMW's core business, its executive saloon cars. There are only three basic models. They are admirably engineered, frequently updated and there is no sign that the product cycle is uncompetitive.

That is all very well for now, say the size-freaks, but it will not last. The car company of the future will obtain enormous savings by basing several distinct models on a single "platform". Volkswagen, in particular, has managed to use the same platform to

produce similar-but-different cars under its own name, the more upmarket Audi, and the cheaper Skoda and Seat brands.

Once this practice is fully mastered, it is argued, single-line producers will be rendered uncompetitive. They will never be able to innovate fast enough, or cheaply enough, to fend off their multi-brand rivals.

This may well be true in the mass market, where Rover competes. But it is much less clear that it applies to BMW's own models. Indeed, a big part of a BMW's appeal is precisely its distinctive engineering, available nowhere else. Its core market is both faster-growing and more lucrative than those of anyone it might link up with. As long as it has the resources to develop new models in its heartland, BMW must surely be better off steering a lone course.

Which leaves the third potential aspect of size: branding. There is no doubt that the cost of building and

maintaining a global brand is a heavy burden.

But BMW has already paid those costs. It has a well-developed presence around the world; one which outstrips that of many of its mooted merger partners such as Fiat. Even Ford, which is a global brand, does not have the same presence in, say, Japan as BMW.

Now turn to the case of Rover. It is a mirror-image of BMW. It is badly behind on model development; it does not have the internal cash flow to innovate properly; it has no distinctive sales proposition; and it has a weak brand with poor geographical coverage.

Rover should certainly have been taken over - as it was. But in retrospect BMW was the wrong partner. Rover's only chance of survival was as part of a multi-brand company that could immediately offer it an up-to-the minute range of models from platforms shared with other brands.

BMW's real motive in buying Rover was to get its hands on Land Rover. It thought it was worth trying, as well, to reinvigorate Rover. Without a platform strategy, this was always likely to be a risky enterprise. And so it has proved.

Bernard Pischetsrieder, who made this gamble as BMW's chief executive, has paid the price. His former number two, Wolfgang Reitzle, has also lost out - for being too right, too aggressively.

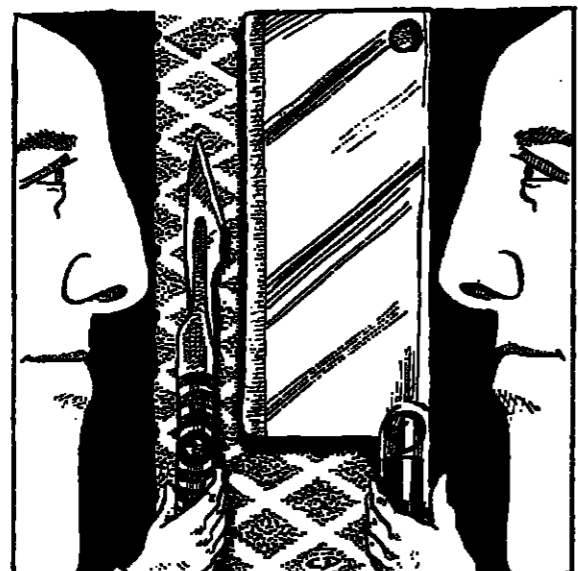
The lesson for BMW is not - as outside observers seem to think - that it should quickly find a merger partner. Instead, it must concentrate on what it does best. Alas, that probably leaves no room for Rover.

And the lesson for other specialised up-market brands? That there is no half-way house. Either merge with a mass-market business, and ruthlessly exploit shared production even if that results in a loss of uniqueness. Or remain alone, steadfastly developing distinctive products. But do not think that the magic of your core business will automatically transmit itself to a weaker acquisition. In such circumstances, one and one risk making a half.

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## LETTERS TO THE EDITOR

### Change to architecture must fit the framework

From Prof Cynthia C. Liechtenstein

Sir, Barry Eichengreen is to be commended for his cogent Personal View ("Building on a consensus", February 2) suggesting the areas of action that may practically be taken to strengthen the international financial system. But some of the suggestions may require legal advice.

To continue his analogy, any change to the international financial architecture must not only be within the engineering capacity of the builders; they must also fit within the existing legal

framework. For instance, at the present time the International Monetary Fund is required by its charter to make the same charges to all members.

To change outright the IMF treaty to permit the concessional interest rates that Prof Eichengreen recommends for loans to countries having national practice of accounting and bankruptcy laws in conformity with international standards would require a treaty amendment. However, the legal department of the Fund over the years has been very clever at finding ways to

interpret the IMF agreement to achieve desired results, and perhaps that could be so here. A trickier issue would be finding a way under the agreement to use "more attractive interest rates" for countries that issue debt securities with the voting and sharing clauses Prof Eichengreen recommends.

Equally, the US Trust Indenture Act mandates such clauses for bonds falling within its aegis, but otherwise the Securities and Exchange Commission does not have power (under its authorising legislation) to exclude from US capital mar-

kets bonds not containing such clauses. Of course, persuading the US Congress to give the SEC power to do so is likely to be much easier than trying to get international agreement on amendments to the IMF treaty, and both are more politically feasible, as Prof Eichengreen points out, than any move to a global regulator of capital markets.

Cynthia C. Liechtenstein, Boston College Law School, 685 Centre Street, Newton Centre, MA 02459, US

### Wrong ingredients in recipe for S. Korea

From Suchan Chase

Sir, As Hubert Neiss, the International Monetary Fund's Asia-Pacific director rightly points out, South Korea still has a battle ahead to achieve a sustainable recovery ("South Korea warned on complacency", February 1). The methods for recovery he and the IMF recommend, however, are going to hinder rather than promote the goal.

There are two problems with the new IMF recipe for Korea. First, in the area of macro policy, the IMF, which was slow to allow fiscal expansion in the face of plunging statistics in the early part of last year, is now exhorting the Korean government to spend more

and more allowing the government deficit to reach 5 per cent of gross domestic product this year. The Korean economy is already on the rise. Further expansionary policies would generate inflation and current account deficits in the near future.

Second, in the area of reform policy, emphasis on chaebol reform, by means of creditor banks that are under governmental control, is misguided. It is precisely the heavy hand of the government that eroded the competitiveness of the Korean financial and industrial sectors.

The disintegration of chaebols started in the market place well before the IMF

advised chaebol reform. One may recall that one-quarter of the top 30 chaebols went down in 1997 before the foreign exchange crisis broke out. The reform Korea needs now is an institutional one that would facilitate, by providing the necessary legal framework, restructuring by market forces.

If Korea is going to have a sustainable long-term recovery, the IMF's current recipe for Korea should not be followed.

Suchan Chase, economics dept. MS-22, Rice University, 6100 South Main Street, Houston, TX 77005-1892, US

### Strong case of double Dutch

From Sir David Lees

Sir, In case collectors of European Central Bank language may have missed Wim Duisenberg's comments as set out in the markets report on your Currencies & Money page of February 5, they bear repetition. The president apparently said: "There are no clear signals yet of a stronger-than-expected weakening in output growth."

Roll on the weaker-than-expected strengthening.

David Lees, Sugar Quay, Lower Thames Street, London EC3R 6DQ, UK

### Lessons in innovation and survival from Italian textiles

From Mr Mark H. Lazerson

Sir, Joseph Stiglitz ("Weightless concerns", February 3) sagely appreciates how a rigid intellectual property regime may undermine the new technologies. But traditional industries may also prosper from an environment that stimulates the uninhibited flow of new

ideas. In Italy's historic textile district of Prato, designs cannot be legally patented, and highly skilled fabric technicians are free to switch employers, so no one firm can ever exercise a lock on fashion.

Yes, copying is widespread, but so is continuous incremental change in man-

ufacturing processes and products. The vanguard firms understand that either they ruthlessly renew their product line every six months or they will be overtaken. This commitment to innovation and the free circulation of ideas and people is one of the reasons Prato's textile industry survives -

despite paying wages many times that of its Asian competitors.

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## PERSONAL VIEW RONALD I. MCKINNON

# Policy of last resort

Regional exchange-rate targets are the vital missing ingredient in the debate over an international lender of last resort

With the east Asian and Latin American currency crises still reverberating, ideas for making the International Monetary Fund more responsive as a lender of last resort are taking centre stage.

For example, in an address to the American Economic Association in New York on January 3, Stanley Fischer, the IMF's deputy managing director, carefully reviewed Walter Bagshot's 19th century ideas on the proper role of a lender of last resort.

Curiously, Mr Fischer did not state what the exchange rate objectives of the putative new lender or reformed IMF would be - except to note that exchange rates of eligible borrowers should be kept "flexible". Indeed, an emerging consensus among many commentators has favoured greater exchange rate flexibility.

But are untethered exchange rates really consistent with the proper goals of an international lender of last resort?

In a world where deflationary pressures have become more pronounced, currency crises can spread from one country to another through even inadvertent changes in exchange rates. Beggar-thy-neighbour devaluations characterised the breakdown of world trade and capital flows in the 1930s, and increased the remarkable speed with which the east Asian debtor economies were brought down from mid-1997 through early 1998. The fall of the Brazilian Real poses a threat of domino devaluations in Latin America in 1999.

To prevent such contagion, long-term exchange rate stability should be a prime objective of any new international lender of last resort. Even without a return to par values for exchange rates on the world scale of the 1944 Bretton Woods agreement, progress on a regional basis to secure exchange rates among countries that are closely connected in trade and finance is still feasible - as the continental European countries showed in 1996-98 leading up

to the launch of the euro in 1999.

That is one reason for thinking the IMF cannot play a central role in improving policy, at least in its current form. It has no proper exchange rate mandate. That aside, there are two other key limitations of the IMF's legal framework.

First, it cannot act until fairly late in a crisis because of the need to negotiate a formal programme with restrictive conditions attached before a loan can be made.

Second, the IMF must negotiate one-to-one with individual member countries. Thus, at the outset of a crisis, the IMF cannot effectively lend to affected countries as a group, for example, by managing some regional stabilisation fund to prevent the crisis from spreading, as in east Asia in 1997.

The call for an international lender of last resort is a euphemism for reforming the IMF. But an enhanced IMF would be fraught with moral hazard if borrowing was too easy

History's most striking example of successful international lending to a group of countries was the Marshall plan of 1948-51. Recognising that the recovery of any one country was tied to recovery of the European economy as a whole, dollar aid was given collectively to 16 western European countries, channelled through one secretariat. To be sure, very strong conditionality was attached to each European country: fiscal balance and the elimination of inflation.

But Marshall plan conditionality also extended across national boundaries: each western European country had to pledge to work toward current account convertibility and exchange rate stability with its neighbours.

The capstone was the formation of the European Payments Union in September 1950. For clearing payments

more or less correctly aligned with each other. Besides, insulating each other from beggar-thy-neighbour devaluations, these informal dollar pegs had successfully anchored their domestic (wholesale) price levels during their rapid economic growth in the 1980s through to 1996. (Similarly, a credible peg of Y360 to the dollar was the monetary anchor in Japan's own great era of high growth and rapid financial transformation in the 1950s and 1960s).

The problem with the 1987 regime was acute moral hazard in the banking system of the Asian debtor economies. In the absence of capital controls, this led to gross over-borrowing in foreign exchange.

Clearly, if Japan and the US succeed in stabilising the dollar-yen rate and so end deflation in Japan, the smaller east Asian econo-

mies want to restore their own, formal or informal, dollar parities which the IMF, reformed or not, should support. China could be the model. With the help of capital controls, the yuan has been successfully pegged at about Yn8.3 to the dollar for almost five years. Inflation has come down to low American levels and China's output growth remains more robust than that of her neighbours.

With proper bank regulation or capital controls in place, a restored dollar-based exchange rate regime would again protect the smaller east Asian economies from competitive devaluations. But the collective advantages are mutual. By being formally part of such an arrangement, Japan could be better protected politically against future American demands to appreciate the yen - and such protection is necessary for Japan's economy to recover from its decade-long slump of the 1990s.

The call for an international lender of last resort is partly a euphemism for reforming the IMF. But an enhanced IMF, with greater and more flexible lending capacity, would be fraught with moral hazard if borrowing access was too easy.

Against this, there is a social need to prevent unjustified exchange rate changes that substantially affect neighbouring countries. Before they were serially attacked, the exchange rates of all five of the east Asian debtor economies were close to purchasing power parity, and the plight of all five was worsened by their devaluations.

Well-defined regional exchange rate objectives, collectively imposed to prevent cross-country contagion from unwarranted exchange rate fluctuations, would clarify what the putative lender of last resort was trying to achieve.

The author is professor of economics at Stanford University and visiting Houbton-Norman fellow at the Bank of England

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday February 9 1999

One in the eye for Schröder

Barely 100 days after he took power at the head of a centre-left coalition government, Gerhard Schröder, the German chancellor, has been given a nasty black eye by the voters. The same political alliance of Social Democrats (SPD) and Greens was voted out of office in the state of Hesse on Sunday, not least because of the perceived middle at the heart of the government back in Bonn.

Fed opens up

Although the US has been strident in urging the developing world to improve its standards of transparency, its own central bank, the Federal Reserve, is hardly a bastion of clarity. Now the Fed has decided to open up its thinking a little, by announcing important shifts in its policy stance, even when interest rates are unchanged.

Curse of oil

Royal Dutch/Shell's \$5.5bn plan to boost Nigeria's petroleum sector should be excellent news. The transition from military to civilian rule now under way comes as the country faces its most serious economic crisis since independence, and Africa's most populous state badly needs an investor to vote of confidence.

Age of the day trader

Roger Taylor and John Labate profile a new breed of small investor which is behind the boom in internet shares

The rise in the value of internet stocks has been variously described as irrational optimism, a mass delusion and a confidence trick. Such words barely capture the sheer exuberance of the internet world.



provider which recently acquired search engine Excite for \$6.7bn in stock, are also said to be attracting more attention from large investors. Greater participation by the institutions may help to steady the market.

'Most of the time I do not know what I am buying. To me it is just a string of letters'

OBSERVER

Pushkin trolleys round Tesco

British actress Prunella Scales is all the rage in Moscow, but only because she's been appearing in television advertisements for a supermarket chain back home.

Blair trading

British premier Tony Blair isn't the twitchy type, but he's running out of time if he wants a real say in who takes over from Jacques Santer as the next president of the European Commission.

Smoked out

Most Russians may be struggling to survive in the wake of the economic crisis that took hold in August, but some are apparently just about managing to keep their heads above water.

Neat footwork

Sounds as though the recently departed England coach Glenn Hoddle, shown the door after voicing some exotic views on reincarnation, could take a few lessons from Zidane Zidane, the Algerian-born French striker who emerged as the star of last summer's World Cup finals.

Kid Kokusai

Nomura Securities, Japan's largest broker, has tended to regard Kokusai securities as an unruly kid brother. For though Nomura has never officially run Kokusai, it's been effectively controlled by Nomura via a convoluted web of shareholdings.

Financial Times 100 years ago German Naval Competition it is satisfying to find that the Germans acknowledge that they are still behind Great Britain in some respects in shipbuilding, but it is evident that they do not intend to be content with the laurels already won.







COMPANIES & FINANCE: THE AMERICAS

INVESTMENT BANKING CONSULTANCY SAYS MACRO-ECONOMIC FACTORS ACCOUNT FOR 50% OF OPERATING RESULT

# Half bank profits 'outside their control'

By Clay Harris, Banking Correspondent

Investment bankers may fancy themselves masters of the universe, but half their operating profits are determined by macro-economic conditions outside their control, according to a leading management consultancy.

The extent to which investment banks are prisoners of external conditions is likely to be the subject of considerable debate during annual bonus discussions.

It emerged in a statistical analysis undertaken by A.T. Kearney of the financial results between 1995 and 1997 of 12 of the world's largest investment banks.

The firm said it had identified six variable factors which had a significant impact on operating profits. But taken together, these accounted for only half of profits. The balance was determined by external factors such as economic growth, interest rates and the yield curve.

Paul Reyniers, European head of A.T. Kearney's financial institutions group, said: "The harsh reality is that top management will destroy value unless they focus on speed of information and the quality of risk management."

Mr Reyniers said the analysis pointed to an increasing dominance of the securities and mergers and acquisitions markets by a "super bulge bracket": Merrill Lynch, Morgan Stanley Dean Witter and Goldman Sachs.

The most important variable factors were size, as measured by growth in equity capital, and the pattern of investment.

For example, with all other factors remaining constant, each \$1 increase in equity capital lifted operating profits by 18 cents, and every \$1 increase in the growth of non-interest expense - including information technology and personnel - raised profits by 33 cents.

But the cost of adding jobs

alone outweighed the additional revenues generated. For a bank with \$100bn in assets, a 1 per cent increase in the rate of headcount growth reduced operating profits by \$8.7m.

Increasing overall market share accounted for only 3 per cent of profits, the firm said.

Doubling market share from one year to the next increased profits in the M&A advisory business - by \$205m for a bank with \$100bn in assets.

But for a bank of the same size, doubling its share of the low-margin primary debt market reduced operating profits by \$256m.

The analysis was based on 13 years' results of Bankers Trust, Credit Suisse First Boston, Donaldson Lufkin & Jenrette, J.P. Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter, Nomura, Paribas, Salomon Brothers (now Salomon Smith Barney), Schroders and Warburg Dillon Read.

## Regulators turn up online trading heat

Hands-off approach to sector appears to be coming to an end, writes John Labate

Last week marked a turning point for the US online brokerage industry.

As E\*Trade, the popular California-based internet broker, was unable to contain a software glitch that left many of its customers stranded for several days, regulators at the state and federal levels began to stir, taking action in the face of growing complaints about slow or at times non-existent service.

does seem clear, though, that the more or less hands-off approach to the fast-growing internet investment sector is coming to an end. Some observers foresee a set of guidelines that may for a time curb the industry's thrust for new online consumers.

"If you're still bringing in new customers at the expense of existing customers,

about the temporary service breakdowns that have hit the likes of Charles Schwab, Waterhouse Securities and now E\*Trade in recent months.

They see it all as part of the sector's evolution and expect it to be overcome. The recent spate of outages are sporadic, rarely hitting more than one of the leading brokers simultaneously.

access to fast and reliable trading on volatile trading days.

Online brokers say they are doing their best to provide more than enough capacity to meet rising trading volumes, but they have also been hit by unprecedented demand in recent months. Leading trading firms such as Waterhouse Securities, now the second largest, say the level of trades processed in January rose by as much as 50 per cent from fourth-quarter levels.

## It does seem clear that the more or less hands-off approach to the fast-growing internet investment sector is coming to an end

Eliot Spitzer, New York State's attorney general, launched an investigation on behalf of consumers.

In Washington, the Congressional Committee on Commerce, led by ranking Democratic member John Dingell, fired off a letter to Arthur Levitt, head of the Securities and Exchange Commission, requesting a briefing about "the capacity and other operational problems affecting online trading systems."

With the industry under greater scrutiny, it remains uncertain what form new regulations might take. It

ers, that won't fly," said Alex Stein, a principal and founder of Gomez Advisors. "I think there will be procedural requirements to equate substantial marketing growth with increases in infrastructure, as well as minimum requirements to handle peak volume days."

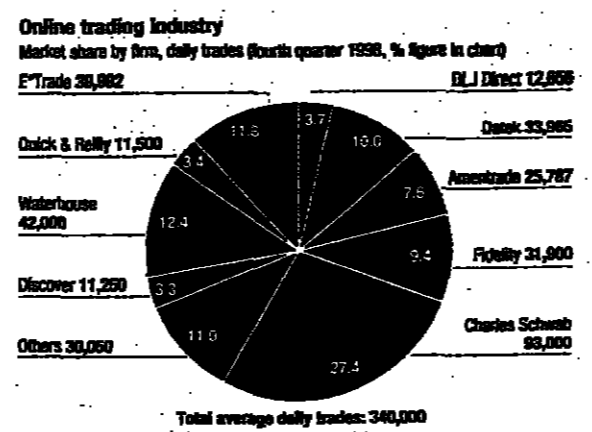
Most industry analysts have expressed mild concern

Angry daytraders, some of whom claim to have lost thousands of dollars in a single day's outage, are less than satisfied. Some say that when some trades do go through, they are left uncertain of the price they actually paid for shares. Many are now forced to open accounts at more than one online broker to guarantee

existing customer base. Again, the difference is that when online brokers suffer outages, their customers stand to lose much more than just access to the internet, but lost opportunities and sometimes lost dollars.

In the end, the staggering growth expected for many online brokers may be helped, rather than hindered, by new regulations.

"Perhaps there will be some third party to test the capacity of the trading systems and to make sure they can handle spikes in demand," said Stephen Franco, electronic commerce analyst at Piper Jaffray.



they are expected to perform at a level of service unmatched by other sectors on the internet, processing thousands of trades per day with split-second accuracy.

The situation is similar to the troubles America Online faced in early 1997 when the company's switch to flat-rate pricing set off a wave of demand that subsequently crashed its system.

When 36 states accused the company of fraud and threatened lawsuits, AOL was forced to pay millions of dollars in refunds and suspend a new advertising campaign to ensure that its system could handle its

NEWS DIGEST

BANKING

### Ex-president of Citigroup to sell \$43m stake

Jamie Dimon, the former president of Citigroup ousted last year, plans to sell 800,000 of his shares in the financial conglomerate, according to a filing with the Securities and Exchange Commission. At yesterday's share price of \$54 1/4, Mr Dimon's stake is valued at around \$43.4m. Mr Dimon, who was widely tipped to be leader of Citigroup before his surprise departure last year, owned around 3.2m shares including options, as of last March.

Mr Dimon's departure came amid difficulties mending Citigroup's corporate banking business with Salomon Smith Barney, following the merger of Citicorp and Travelers Group. His exit followed a cooling in his once-close relationship with his mentor, Sandy Weil, now co-chairman and chief executive of Citigroup and formerly head of Travelers.

Rumours have linked Mr Dimon with financial services groups including Bankers Trust and American International Group. Tracy Corrigan, New York

PRIVATE INVESTMENT

### Hicks Muse fund closes

Hicks Muse Tate & Furst, the private investment and buy-out firm, has closed a \$4.1bn fund created to invest in a diversified portfolio of businesses in a wide range of industries. About half of the fund's capital has already been committed to investments and add-on acquisitions by its portfolio companies, the firm said.

Hicks Muse said the fund had raised more than \$10bn for global private equity investments since its formation in 1988. In addition to the latest fund, Hicks Muse has a \$964m fund to make private equity investments in Latin America. About 20 per cent of the latest fund's limited partners are outside the US, the firm said. Reuters, Dallas

INFORMATION TECHNOLOGY

### CA to buy CMSI

Computer Associates and Computer Management Sciences, a company which provides information technology consulting and software, have entered a merger agreement whereby CA will acquire CMSI through a cash tender offer followed by a cash merger.

A wholly-owned subsidiary of CA will offer to purchase all outstanding shares of CMSI's common stock for \$28 a share. CA will fund the acquisition through cash balances and existing credit facilities. Financial terms of the deal were not disclosed. The merger has been unanimously approved by the boards of directors of both CA and CMSI. AFX, New York

# NOKIA

(Public limited company incorporated in the Republic of Finland)

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to the shareholders of Nokia Corporation (the "Company") of the Annual General Meeting to be held on Wednesday, 17th March, 1999 at 3:00 p.m. at The Helsinki Fair Centre, Congress Wing, Congress Hall C1, Rautatietäisenkatu 3, Helsinki, Finland. Registration of the persons present who have given a notice of their intention to attend will commence at 2:00 p.m.

**Agenda**

The following matters will be on the agenda of the Meeting:

- The matters specified in Article 12 of the Articles of Association:
  - review of the annual accounts, comprising the Profit and Loss Account, the Balance Sheet, the Annual Report of the Board of Directors and the Consolidated Accounts;
  - review of the Auditors' Report;
  - approval of the Profit and Loss Account, the Balance Sheet, the Group Profit and Loss Account and the Group Balance Sheet;
  - decision on any measures to which the profit or loss shown in the approved Balance Sheet or Group Balance Sheet may give rise;
  - decision on discharging the members of the Board of Directors and the President from liability;
  - decision on the number of members to serve on the Board of Directors;
  - decision on the remuneration to be paid to the members of the Board of Directors and to the auditors;
  - appointment of members of the Board of Directors; and
  - appointment of the auditors and the deputy auditors.
- A proposal by the Board to amend Articles 2, 4 and 13 of the Articles of Association essentially to the effect that:
  - the share capital be converted into euros and the minimum and maximum amounts of the share capital be amended as consequence of the conversion;
  - the nominal value of shares be split two-for-one and converted into euros, i.e. amended from FIM 2.50 to 24 cents;
  - the classes of shares A and K be consolidated and Article 13 concerning liability to redeem shares be modified as consequence of the consolidation;
  - a provision concerning the Nomination Committee be inserted in the Articles of Association.
- A proposal by the Board to increase the share capital of the Company by €36,051,274.79 (FIM 214,351,146.06) through a bonus issue. The nominal value of each share is increased to 24 cents by a transfer corresponding to the amount of the increase from the share premium fund to the share capital.
- A proposal by the Board to issue 36,000,000 stock options, which entitle to a subscription for 36,000,000 Nokia A shares, to key personnel of the Nokia Group and to a wholly owned subsidiary of the Company. The stock options are intended as part of the incentive program for key personnel of the Nokia Group. 12,000,000 of the stock options will be marked with

**The Accounts and Annual Report**

The accounts for the 1998 financial year and details of the proposals mentioned in paragraphs 2-7 above will be on display from 10th March, 1999 at the Head Office of the Company at Nokia House, Keililahdentie 4, Espoo, Finland, and the offices of Enskilda, Skandinaviska Enskilda Banken at 2 Cannon Street, London EC4M 60X. Copies of the documents and the full annual report in Finnish, Swedish and English will be available at the Head Office of the Company and will be sent to shareholders upon request to the Registrar. Such copies will also be available upon request at Enskilda from 10th March, 1999. The annual report is available at the internet page of Nokia (<http://www.nokia.com>) from 3rd March, 1999.

**Right to Vote**

Shareholders who are registered on the register of the shareholders held by Finnish Central Securities Depository Ltd on 12th March, 1999 at the latest and who wish to exercise their voting rights at the Meeting must give notice to the Company of their intention to attend on 12th March, 1999 at 6:00 p.m. at the latest. Notice may be given to the Shareholders' Registrar by telephone during office hours +358 9 180 7542, or in writing to the Shareholders' Registrar, Nokia Corporation, P.O. Box 228, FIN-00045, Nokia Group, Finland or by telefax +358 9 452 3189. Written notice should arrive on 12th March, 1999 at 6:00 p.m. at the latest.

**Payment of Dividend**

The record date for the dividend for 1998 is 22nd March, 1999. The Board will propose to the Meeting a dividend of FIM 5.75 for each share and that the dividend be paid on or about 30th March, 1999.

**Composition of the Board of Directors**

Cesimir Ehrnrooth, Chairman of the Board, has announced that he will not stand for reelection at the Annual General Meeting to be held on 17th March, 1999. The Nomination Committee appointed by the Board of Directors has prepared a proposal on the composition of the Board to be made at the Annual General Meeting. The Nomination Committee has informed that it will propose that the number of members of the Board of Directors be nine and that Pirko Allila, Edward Andersson, Paul J. Collins, Jouko K. Leppänen, Jorma Ollila, Robert F.W. van Oordt, Vesa Vainio and Iira Viisanen be re-elected to the Board, and Bengt Holmström be elected a new member of the Board, until the closing of the following Annual General Meeting. Mr. Holmström is Professor of Economics at M.I.T. in Massachusetts | Forensta Staterna.

Espoo, 29th January, 1999  
Board of Directors of Nokia Corporation

## ICA plans job cuts and asset sales to lift margin

By Andrea Mandel-Campbell in Mexico City

ICA the subway and tunnel builder and Mexico's largest engineering and construction company is trying to dig its way out of trouble with a restructuring plan to cut costs and boost sagging margins.

Management job losses, a \$400m debt repayment and the sale of far-flung assets are in the works, said Bernardo Quintana, president, in an effort to boost prospects in one of Mexico's most battered sectors.

While the moves have prompted brokerage Salomon Smith Barney to upgrade ICA stock from "hold" to "buy", other analysts are more sceptical that ICA will hold to its new pledge to get involved only in clearly profitable projects.

"It's difficult to stick to specific rates of return when the pickings are so slim, and everybody and their brother are bidding on the few projects out there," said one analyst.

In the past ICA has often

neglected returns, admits Mr Quintana, for the sake of keeping its engineers employed. As a result it has seen operating margins slip by a third. But now there will be a Chinese Wall between the construction and the investment sides of the business, he claims.

Mr Quintana vowed that ICA would not participate in upcoming airport privatisations if bidding levels remain as inflated as in recently concessioned airports.

As part of the restructuring, ICA has announced it will sell \$300m-worth of non-core assets, including golf courses, a power plant, a hotel, and a few parking lot acquisitions that have since soured. But the bulk of the cost cutting will come from the surprise sale of its stake in Ferromex, Mexico's northern Pacific railroad, which ICA acquired only a year ago.

The funds will lighten ICA's hefty debt by nearly half to \$630m as of 1999. As of the third-quarter of 1998, net debt represented

26 per cent of the group's total capitalisation.

Mr Quintana says ICA has learned lessons: not to put up company equity in order to win a contract, and that any new project financing will be backed by the project itself. But first it is faced with the double challenge of winning scarce new projects and getting financing, which has become inaccessible with continuing market volatility.

Since the 1994 devaluation, government-sponsored projects have dried up while the country has seen an influx of foreign builders from Europe and Asia, heating up competition.

So all eyes are on tenders to upgrade three refineries owned by Pemex, the state-run energy company, scheduled for tender this month. ICA, together with US and Italian partners, is one of half a dozen consortia in the running for the construction contracts, worth an estimated \$1bn.

If ICA does not win one, say analysts, 1999 earnings will inevitably be affected.

## Free PCs come with taxing demands

By Roger Taylor in San Francisco

People who are reluctant to buy a computer because they know the price will be much lower in a few months time, can finally stop waiting. A Californian company has this week announced the arrival of the free PC.

From its website - free-pc.com - the company is offering a Compaq PC with a 333MHz processor and 32MB of Ram for nothing. If that offer is not tempting enough, the company is throwing in a free internet access service as an added incentive.

The catch? To qualify, you must give the company a good deal of personal information about yourself, agree to use the machine for a minimum amount of time each month and accept some particularly invasive advertising.

The personal information is used to pick suitable advertisements to display on the computer screen. These advertisements will appear prominently in a frame around the working part of the screen.

And just in case you thought you could avoid them, by staying off-line, they will be stored on the computer and will be present even when you are not connected to the internet.

Free PC is the brainchild of Bill Gross, chief executive of Ideelab, an internet development company which has spawned a number of other internet ventures including eToys, an online toy retailer.

"The company is initially giving away 10,000 PCs in a trial.

A number of industry commentators have long predicted the advent of the free PC as a way to promote online services.

With the cost of a PC now falling below \$500 and the cost of acquiring new customers through traditional forms of promotion at or above that level for many businesses, it makes increasingly good economic sense to give away computers for nothing.

The Free-PC venture is being backed to the tune of \$10m by USA Networks which operates a number of online businesses - including Ticketmaster, Online-City search and Home Shopping Network. Compaq will also benefit from the trial as the free PCs will direct users to its Altavista internet search service.

## Chubb to buy Executive

By Andrew Bolger, Insurance Correspondent

Chubb, the New Jersey-based general insurer, agreed yesterday to buy Executive Risk, a Connecticut-based company that covers corporate directors and officers, for about \$748m in shares.

Dean O'Hare, Chubb's chairman, said the acquisition would generate annual savings of about \$16m-\$18m, but he emphasised the deal was not primarily about cutting costs.

"It's about revenue generation," Mr O'Hare said. "This is going to increase substantially our ability to grow one

of our most profitable specialty lines, which is executive protection."

The terms of the deal call for Executive Risk shareholders to receive 1.235 Chubb shares for each Executive Risk share. Chubb shares fell \$38, or nearly 7 per cent, to \$54 1/4 in midday trading. Based on that price, the deal valued Executive Risk at about \$748m.

The deal comes about a week after Chubb reported lower fourth-quarter profits, as prices in the standard commercial lines business continued to deteriorate.

The decline in profits followed several disappointing quarters last year, which

helped to fuel speculation about Chubb as a possible takeover target.

Chubb expected the transaction to result in decrease in earnings of about 2 per cent in 1999, followed by a slight increase in 2000. Shares of Executive Risk have been under pressure over the past year due to concern over exposure to losses related to lawsuits against executives for failure to properly prepare their businesses for the year 2000 computer problem.

But Mr O'Hare said: "I am extremely confident that Executive Risk's book is well protected from year 2000 exposure."

Financial Times Surveys

# Broadcast Media

Thursday April 8

For further information please contact:

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TUESDAY LIBRARY  
NEWS DIGEST

### President of Citigroup sell \$43m stake

John D. Allen, the former president of Citigroup, has sold 1.5 million shares of Citigroup stock for \$43 million, according to a filing with the Securities and Exchange Commission. Allen, 57, is Citigroup's former president and chief executive officer. He was named Citigroup's president in 1997 and served in that role until his departure in 1998. Allen's sale of Citigroup stock follows the sale of 1.5 million shares of Citigroup stock by Citigroup's former president, John D. Allen, in 1998. Allen's sale of Citigroup stock follows the sale of 1.5 million shares of Citigroup stock by Citigroup's former president, John D. Allen, in 1998.

### Private Investment Mitsui fund closes

Mitsui Fund for the Americas has closed its \$1 billion fund, the largest private equity fund in the Americas. Mitsui Fund for the Americas is a private equity fund managed by Mitsui & Co. The fund is focused on investing in private equity companies in the Americas. Mitsui Fund for the Americas is a private equity fund managed by Mitsui & Co. The fund is focused on investing in private equity companies in the Americas.

### Information Technology CA to buy CMSI

Computer Associates International Inc. has agreed to buy CMSI, a software development company. Computer Associates International Inc. has agreed to buy CMSI, a software development company. Computer Associates International Inc. has agreed to buy CMSI, a software development company.

### Outs and margin

Free PC come with taxing demand. The demand for free PC software is increasing, putting pressure on software companies. The demand for free PC software is increasing, putting pressure on software companies. The demand for free PC software is increasing, putting pressure on software companies.

### Executive

Executive search firms are reporting a strong demand for top-level executives. Executive search firms are reporting a strong demand for top-level executives. Executive search firms are reporting a strong demand for top-level executives.

# It's official. Our thinking is highly thought of.

#### Corporate Finance – January '99

- Top Banks of the Year
- Investment Bank of the Year
- Equity-Linked House of the Year

#### Corporate Finance – December '98

##### Deals of the Year

- Equity-Linked Offering of the Year – Swiss Life GEMMS
- Equity-Linked Offering of the Year – Bell Atlantic (runner-up)
- Equity Offering/Privatezation of the Year – Swisscom
- Syndicated Loan of the Year – GEC
- International Bond Deal of the Year – KPN (runner-up)
- Yankee/144A Bond of the Year – Akzo Nobel (runner-up)
- Buyout of the Year – Investcorp/Watmoughs – BPC
- Buyout of the Year – KKR/Willis Corroon (runner-up)
- M&A/Demerger of the Year – Coca-Cola Beverages (runner-up)
- High Yield Bond of the Year – Sirona (runner-up)

#### Euromoney – January '99

##### Overall Winner of the Poll of Polls

- No. 1 Underwriting
- No. 1 Trading
- No. 1 Advisory

#### Institutional Investor – January '99

##### Deals of the Year

- Loan of the Year – GEC
- Equity-Linked Deal of the Year – Swiss Life GEMMS
- Privatization Deal of the Year – Swisscom
- Securitization Deal of the Year – Optimum Finance
- Derivatives/Reverse Convertible of the Year – Goal

#### International Equity Review – January '99

##### Deals of the Year

- Best Equity-Linked Debt Issue – Swiss Life GEMMS
- Best Swiss Equity Issue – Swisscom
- Best Privatization Issue – Swisscom
- Most Impressive Lead Manager of European Equity Issues

#### International Financing Review – January '99

##### Review of the Year 1998

- European Equity House of the Year
- Equity-Linked House of the Year
- European Equity-Linked House of the Year
- Equity-Linked Issue of the Year – Swiss Life GEMMS
- European Equity-Linked Issue of the Year – Swiss Life GEMMS
- Privatization Issue of the Year – Swisscom
- DM Bond of the Year – KPN
- European Project Finance Loan of the Year – Saltend

Warburg Dillon Read, named "Investment Bank of the Year", *Corporate Finance*, January 1999.

## Warburg Dillon Read

An investment bank of global intelligence

Issued by UBS AG acting through its Investment Banking Division, Warburg Dillon Read, regulated in the UK by the SFA, to persons who are not private customers in the UK. In the US, Warburg Dillon Read LLC, a subsidiary of UBS AG, is a registered broker-dealer and member of SIPC, the New York Stock Exchange and other leading exchanges.

COMPANIES & FINANCE: EUROPE

PHARMACEUTICALS SALES IN US AND EUROPE MAKE UP FOR FALLS ELSEWHERE

Asia turmoil fails to dent Schering

By Tony Barber in Frankfurt

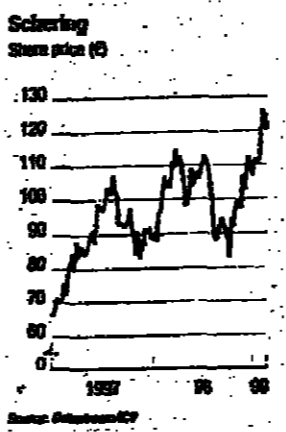
Schering, the German pharmaceuticals group, said yesterday it had suffered a sharp drop in sales in Japan and south-east Asia last year as a result of the region's financial and economic turmoil, but that a good performance in Europe and the US had made up the difference.

Interim 1998 results showed that turnover in south-east Asia had fallen by 28 per cent and sales in Japan had fallen by 10 per cent. In Latin America, where Schering became caught up last year in a controversy over fake contraceptive pills that found their way on to the Brazilian market, the company said sales fell by 1 per cent.

which relied increasingly last year on buoyant markets in Europe and the US to offset difficulties in Asia and, to a lesser extent, Latin America. About 85 per cent of Schering's sales go outside Germany. "Downturns caused by exchange rate developments were particularly noticeable in south-east Asia, Latin America, Turkey and Japan," the company said.

Asia and Latin America were fully offset by good business development in Europe and the US. Schering, which in November became the first German company to proceed with a buyback of its own shares, said overall group profits had risen by 7 per cent last year to DM478m (€244m, US\$278m) while group sales in terms of D-Marks had increased by 3 per cent to almost DM6.43bn.

company's best-selling product, which is used in the treatment of multiple sclerosis, increased by 7 per cent to DM720m. The product, which is marketed in the US under the name of Betaseron, accounted for more than one-third of turnover in Schering's therapeutics division, which reported an almost 5 per cent increase in sales to DM2bn.



Schering Share price (€) 1997 1998

MSDW may boost Spanish presence

By Tom Burns in Madrid

Morgan Stanley Dean Witter, the global US financial services company, is expected today to boost its local presence in Spain by acquiring AB Asesores, the securities house, in a transaction thought to be worth \$300m-\$400m.

The takeover will give Morgan Stanley an edge over other overseas companies seeking a slice of Spain's mutual funds business. The absorption of Asesores, which is Spain's biggest non-bank financial services group with \$4.3bn under management at the end of last year, also highlights the vulnerability of domestically orientated institutions in the euro-zone.

AEROFLOT MD HOPES MANAGEMENT SHAKE-UP WILL PUT AIRLINE ON THE RIGHT COURSE

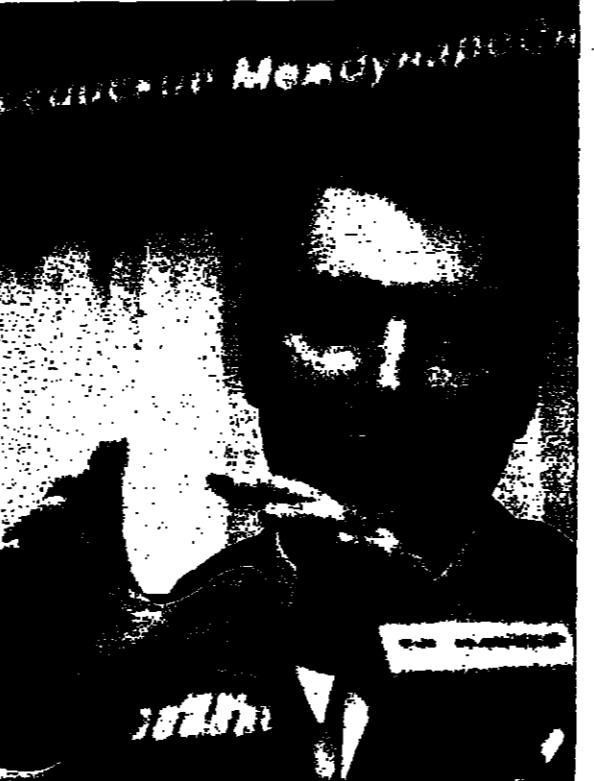
Clear for take-off despite storms

By Andrew Jack in Moscow

The blizzard blowing outside the window of the managing director of Aeroflot this weekend was mild compared to the powerful political storm brewing inside his company.

In the last few days, Valery Okulov has overseen a radical shake-up that simplifies the corporate structure of Russia's largest airline and concentrates management more tightly in his hands. Where there were six senior vice presidents and many little "empires" across the group, now there are two first deputy general managers reporting directly to him.

He did his best to make the case for the recent changes in purely managerial terms, stressing that "we don't consider it to be a question of personalities". Since the state sold a 49 per cent stake in 1994, the group has come a long way, closing a number of routes that had been operated for reasons of prestige more than profit and noticeably improving customer service.



Hands on: Valery Okulov has taken greater control

But in Russia it is hard to separate business from politics, especially in view of those who have been reshuffled. Insiders say the changes that have taken place are the latest development in a long-standing conflict between Mr Okulov's team and a group of executives within Aeroflot closely connected to Boris Berezovsky, the business "oligarch". Mr Berezovsky helped to bankroll President Boris Yeltsin's re-election in 1996, and is reportedly a friend of Tatiana, his younger daughter. Mr Okulov, who became managing director in May 1997, is a career navigator for Aeroflot. He is also married to Elena, Mr Yeltsin's elder daughter.

Mr Berezovsky denies he has any connection with Aeroflot, others suggest he indirectly owns a significant proportion of shares. Some insiders argue he was behind attempts at the start of this year to acquire equity from existing shareholders via Aeroflot Four Group and Aeroflot Tours.

Importantly, a number of key executives at Aeroflot are said to be close to him. Above all, Nikolai Glushkov, who worked at Mr Berezovsky's LogoVAZ group, joined Aeroflot, went back to LogoVAZ but remains on the airline's board.

advantage of the situation. So far, Mr Glushkov remains. But others who have lost their places in the reduced management committee were in the Berezovsky camp.

Aeroflot's commercial director, a former LogoVAZ executive, was suspended last week following an internal audit inquiry. The head of Aeroflot Group Tours is expected to leave soon. AvtoVAZ is no longer the airline's bank. And while Mr Okulov will not confirm that links with Andava will be cut, he stresses that future contracts will be the result of competitive tenders.

Whatever the reasons, analysts argue that the consolidation of management is positive for shareholders - although the outlook still remains bleak in an airline market severely shaken by last year's crisis.

Steve Thomson, with United Financial Group in Moscow, says: "Aeroflot is by far the most likely airline to survive, but its survival by attrition, not by strength."

The battle may not be over. Yet Mr Okulov is pressing ahead with his business plans, including the continued development of Aeroflot's hub system across Russia, and the 670m first phase of a dedicated third terminal at Moscow's Sheremetyevo airport.

Metallgesellschaft aims to buy Gea

By Tony Barber in Frankfurt

The German industrial group Metallgesellschaft, which has returned to profit after being rescued from near-collapse in 1993, launched a strategic realignment of its business yesterday when it announced plans to acquire Gea, a medium-size company specialising in advanced-technology machinery.

in Gea, based at Bochum in the heart of Germany's Ruhr industrial region. The deal is estimated to be worth more than €310m (\$350m), based on MG's closing share price last week of €15.70.

MG described the purchase as part of a wider restructuring in which it will withdraw from metal trading and dispose of its building systems division, concentrating instead on two core activities - engineering and chemicals.

acquisition, pushing up MG's share price by 14 per cent and Gea's by more than 20 per cent. MG said its future engineering sub-group, consisting of Gea and Lurgi, a Frankfurt-based subsidiary that specialises in turn-key plants and engineering technology, would have joint annual sales of almost DM1.0bn (€51bn, \$5.8bn).

mainly from higher productivity, joint purchasing and other cost savings.

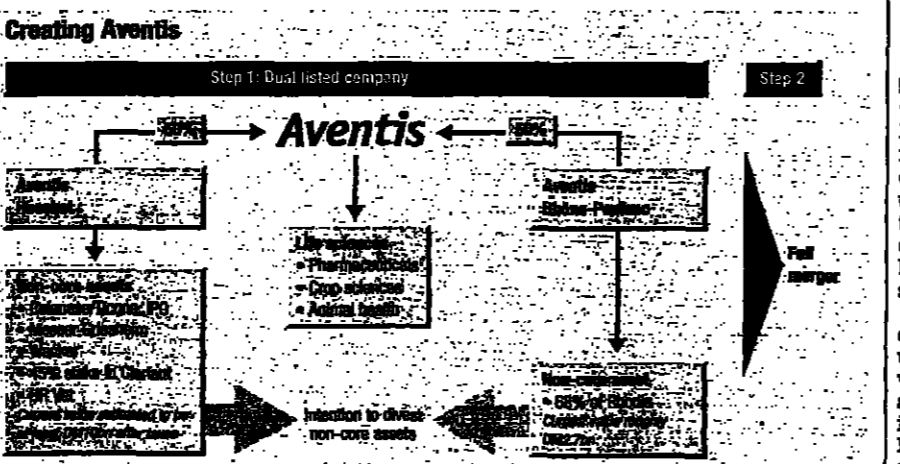
MG ran into trouble more than five years ago when its US-based oil and gas trading subsidiary incurred heavy losses, leading to a bail-out that cost creditors and shareholders more than DM3bn. However, the company reported yesterday that its net profit in 1997-98 had risen by 28 per cent to a record DM308m, and sales had increased by 18 per cent to DM21.4bn. It predicted a rise in this year's group profits of more than 10 per cent.

Gea, which relies on exports for about 80 per cent of its sales, increased its 1998 net profit by 20 per cent to DM192m. MG is acquiring its stake in Gea from Gruyter Bank of Zurich, which is pooling shares from institutional and private investors as well as from the Gea founder family. Merrill Lynch acted as MG's advisers in the deal. JP Morgan advised the selling consortium of Gea shareholders.

Hoechst investors set for surprise gain

Sale of non-core assets in merger with Rhône-Poulenc adds value, writes Uta Harnischfeger

Shareholders in Hoechst, the German pharmaceuticals and chemicals company, strongly criticised two months ago over the deal it reached for its planned merger with France's Rhône-Poulenc, may find themselves the ultimate winners. Because both companies have to sell their remaining non-core activities as a precondition of a full merger, Hoechst shareholders will benefit from the fact that those of Hoechst far exceed those of the French company.



after taxes. Based on Hoechst's market capitalisation of about DM40bn (€20.5bn, \$23.1bn), that adds about 25 per cent to the value of each Hoechst share. Hoechst still owns Celanese and Ticona, which it intends to jointly list some time soon, industrial gases unit Messer Griesheim, chemicals unit Wacker, a 45 per cent stake in speciality chemicals firm Clariant and HR Vet, which it decided not to merge with Rhône-Poulenc's own animal health joint venture, Meril.

in Aventis before merging in two to three years. If it does, the ownership question could then be revised. But if, by the time of the full merger, Hoechst has not distributed to its shareholders the money from its divestments, each company's assets would have to be reassessed, said Mr Schmieder. "It doesn't have to necessarily result in a 50-50 ownership."

gor Landau, managing director at Rhône-Poulenc and on the supervisory board of Aventis, responded: "The deal is clear - it's a merger of equals, full-stop." He acknowledged that Hoechst was a bigger company, but said it would have to find ways of returning excess capital to its shareholders. "If their shareholders are entitled to more value we have to find a way to give them the value."

Framatome in change of strategy

By David Owen in Paris

Framatome, the French nuclear construction and connectors company, has unveiled a re-organisation that may facilitate the exit of Alcatel, a leading shareholder, from the nuclear sector.

The French telecommunications equipment group is understood to have had talks with the French government about swapping part or all of its 44 per cent interest in Framatome for something closer to its core activity.

One option would be to exchange the stake for more shares in Thomson-CSF, the defence electronics company in which Alcatel has a 16 per cent interest. Another might be to concentrate its Framatome holding in the connectors side of the business, which has grown in importance with last year's acquisition of US-based Berg Electronics and could be closer to Alcatel's cables activity.

Mindev sues Ashanti in gold dispute

By William Wallis in Lagos

Mindev and Associates, the Belgian mining company, is suing Ghana's Ashanti Goldfields for \$300m after a protracted dispute over the implementation of a share purchase agreement in a gold concession in the Democratic Republic of the Congo.

agreement, which included provisions for an investment of more than \$200m. It is also alleged that the company negotiated to a bid by Ashanti to take over its entire majority stake in the concession after its contract was illegally revoked by a government order in 1997.

The move underscores what mining analysts say is the lack of a consistent mining policy in the Democratic Republic of the Congo. It has fuelled official corruption and led to litigation pitting foreign mining houses against each other and against the government.

A court in Brussels, ruling last Friday on procedural matters only, issued an injunction enforcing confidentiality obligations on issues that arose during earlier mediation.

As a result of this and political instability, many of the companies who rushed to seize what appeared to be a golden opportunity to exploit some of the world's richest mineral deposits after the overthrow of the late dictator, Mobutu Sese Seko, have found themselves unable to keep to investment programmes.

It was only at the end of last year that the Congolese government recognised Ashanti's rights to the concession. This followed the arrest of several Congolese mining officials for the role they played in awarding it illegally to a third company, Russell Resources.

They have also been hampered by the growing reluctance of banks to provide financing.

It was also after the area, in which the concession is situated had fallen under the control of Ugandan-backed rebels fighting to end the two-year rule of President Laurent Kabila.

Ashanti began negotiations to buy Mindev shares in the 2,000 sq km Kilimoto gold field in the north-east of the Congo in 1996.

As a result, Mindev will have to renege a request for arbitration at the International Court of Commerce in Paris, withdrawing allegations that mediation had failed due to Ashanti's "bad faith".

Two civil wars in as many years, as well as the illegal handling of the concession by Congolese officials, have stalled exploitation of the area, believed to contain some of the most concentrated deposits of gold ore on the continent.

Ashanti's legal team said they were confident the claims against the company were "unfounded", and added that they were suing Mindev for damages at the International Court of Commerce. They were less confident that they would be able to access the Kilimoto concession in the near future to exploit the gold.

NEWS DIGEST

BEVERAGES

Pernod Ricard sale plan revives speculation

Pernod Ricard, the French drinks group, is set to sell Yoo-Hoo, its US chocolate drink subsidiary, in a move that yesterday revived speculation that the planned sale of its drinks unit Orangina to Coca-Cola of the US was imminent. Pernod Ricard said it had appointed J.P. Morgan, the US investment bank, to examine the future of Yoo-Hoo and to "study the future of Yoo-Hoo, after the eventual sale of Orangina."

Its 1988 acquisition of Yoo-Hoo was motivated by the potential for synergies with the Orangina brand. Last year, Dominique Strauss-Kahn, French finance minister, blocked the FF5bn (€762m, \$860m) sale of Orangina on the grounds that the transaction threatened to distort competition in the French soft drinks market. The transaction was strongly opposed by PepsiCo, Coca-Cola's US rival, which has an agreement to sell its products in France through Orangina's distribution network. People familiar with the negotiations yesterday said Coca-Cola had maintained contacts with the finance ministry after the veto. A final agreement allowing the sale to go ahead is thought to be held up by the failure to agree on a definition of "soft drinks consumed outside the home". Samer Iskandar, Paris

TRAVEL SERVICES

Accor to buy Frantour stake

Accor, the French hotel and travel services group, yesterday said it had reached an agreement to buy 65 per cent of Frantour, the hotel and tourism company controlled by SNCF, the public railway operator. Accor also offered to buy the remaining stakes held by minority shareholders. The acquisition, for an undisclosed amount, will add 90 hotels and 86 travel agencies to Accor. Last week Frantour sold its restaurant operations to Autogrill, of Italy, for FF320m (€49m, \$55m). Samer Iskandar, Paris

PLATINUM

Implats settles disputes

Impels Platinum of South Africa (Implats), the world's second biggest platinum producer, has settled a 10-year-old legal battle with the Bafokeng tribe over mineral rights, ending the uncertainty that has plagued the company's management and depressed its share price. Implats and the Royal Bafokeng Nation said all disputes had now been settled.

With effect from July last year, Implats will increase its royalty payments to the Bafokeng to 22 per cent of taxable income in the Bafokeng areas west of Johannesburg, from the previous percentage of between 14.9 and 18 per cent. To protect the tribe from any losses or low earnings by Implats, the Bafokeng will receive a minimum annual royalty of 1 per cent of the gross selling price of the metals mined from their land. They will also receive a one-off grant of 1m shares in Implats, now worth about R100m (\$16.6m), and be entitled to nominate a member of the board. The affected areas are in South Africa's North West Province. Implats' share price yesterday fell R1.30, or 1 per cent, to R96.90. Victor Mallet, Johannesburg

CABLE TELEVISION

UPC raises share price range

United Pan-European Communications, Europe's biggest private cable television operator, yesterday raised the price range for shares in its initial public offering because of "substantial levels of interest" from investors. UPC, based in the Netherlands, raised the price range to €27-€29 a share, from €24-€27 previously. The move lifts the value of the IPO to a potential €1.16bn (\$1.3bn) for the company's listing on the Amsterdam and Nasdaq stock exchanges. The IPO, being coordinated by Goldman Sachs and Morgan Stanley Dean Witter, is due to close later this week. Vincent Boland

Advertisement for Citibank International Bank for Reconstruction and Development. Includes interest rates for Yen 50,000,000,000 floating rate notes due 9th February 2001.

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Large vertical advertisement on the right edge of the page, partially cut off. Visible text includes "Malaysian b...", "Yokohama Rub...", "Foster's beats forecasts", "strong overseas sales", "Chinese company delays float", "Bank in double link", "to close plant".

COMPANIES & FINANCE: ASIA-PACIFIC

FINANCIAL INSTITUTIONS COMMERCE ASSET-HOLDING TO BUY LOSS-MAKING BANK BUMIPUTRA

Malaysian banks agree M\$65bn merger

By Sheila McHugh in Kuala Lumpur

Malaysia's politically connected Commerce Asset-Holding agreed yesterday to buy the government-owned Bank Bumiputra to form the country's second biggest bank...

Commerce Bank comes just months after an attempt, in September, to save Bank Bumiputra through a capital injection of M\$1.1bn from Khazanah Nasional, the government's investment company.

M\$4.3bn, or 172 per cent of equity, as at end-September 1998. "A further rise in non-performing loans or decline in collateral value, not an unlikely scenario, as the recession has yet to run its full course, will mean that the bank will need further capital injections if it is to maintain its capital adequacy ratio above the mandated 8 per cent," said Fitch IBCA, the international rating agency.

The bank's capital adequacy ratio stood at 9.7 per cent after the capital injection, but Fitch said the losses for the six months weakened that ratio to 9.3 per cent at end-September. The new bank is to have a combined capital adequacy ratio of 10 per cent. The agreement includes the government sale of its stake in Bank Bumiputra in exchange for what will eventually be a 30 per cent stake in the merged institution

and the settlement of the estimated difference of M\$662m paid to the government in cash or stock. Danaharta, the government's asset-management company, will buy much of Bank Bumiputra's bad loans at face value. Bank Bumiputra is one of the bigger victims of the financial crisis that pushed Malaysia into recession. The banking system went into the regional crisis with domestic debt at 170 per cent

of gross domestic product. The authorities have looked to it to revive the economy by encouraging financial institutions to lend still further. Economists anticipate almost one in three loans will be non-performing by the time the crisis peaks later this year. The merging banks do not expect formal approval until the end of the year and until then will continue with separate operations.

Email to acquire Southcorp arm

By Gwen Robinson in Sydney

Email, Australia's largest manufacturer of household appliances, launched further rationalisation in the local white goods industry with an agreement to buy the appliance division of Southcorp, the wine, packaging and white goods group for about A\$107m (US\$69.8m).

leave the company with its metals distribution business and white goods operation. Analysts said Email had a profitable Asian security products business with subsidiaries in Singapore, Thailand, Malaysia and Indonesia, while Assa Abloy had sales operations in Australia, Singapore and Hong Kong. The combined businesses would have a dominant position in the Australian and south-east Asian markets, with total sales approaching A\$200m. The acquisition of Southcorp's white goods assets would leave Email with nearly two-thirds share of Australia's white goods market.

Email also announced a joint venture with Assa Abloy, the Swedish lock-maker, which would combine the companies' Australian and Asian security products businesses. Email would also sell its US-based Emtek business to Assa Abloy's US subsidiary, the company said. Both announcements were made after trading closed on the Australian stock market. Assa Abloy would pay about A\$90m, or book value, for 50 per cent of Email's Australian businesses and 100 per cent of the US business, Email said. The deal would have a positive impact on earnings per share in the first year. "The deals represent the latest in a restructuring launched last year. Email's negotiations to sell its bathroom products operation will reduce debt.

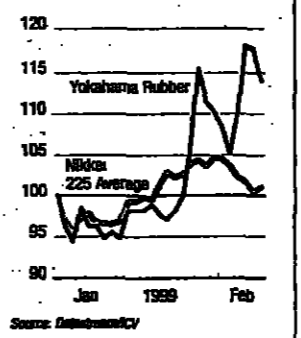
Yokohama Rubber mulls foreign tyre link

By Alexandra Harvey in Tokyo and John Griffiths in London

Yokohama Rubber, Japan's third largest tyre manufacturer, is considering a strategic link with a non-Japanese company, believed to be Groupe Michelin of France, after last week's global alliance between Goodyear and Sumitomo Rubber which created the world's largest tyre company.

With Sumitomo essentially taken over by Goodyear, despite last week's deal being depicted as a "strategic alliance", Yokohama is viewed as a natural target for Michelin. While a spokesman for the secretive French group would not confirm negotiations with Yokohama, people close to the industry say informal discussions between the two have been going on for some time. Mr Kiyoura said that although Yokohama had not yet received an official offer, the company was open to such bids. An alliance with a foreign manufacturer would be more likely, because there were few synergies gains to be made with another Japanese tyre-maker, he added. "If there was such an offer, we would consider it... We recognise we must compete on a global scale. But that would mean investing in South America, the US, possibly even Africa. In the end, we would lose to the big three." In the short term, Yokohama would seek to improve cost-competitiveness by strengthening the company's financial base, returning its US operations to profitability and rebuilding Yokohama as a niche manufacturer. Yokohama, which depends on the Japanese market for more than 70 per cent of sales, has been battered by falling domestic demand and the appreciation of the yen. Financial performance for the full year is expected to be well below company targets of Y4bn in after-tax earnings on Y500bn in turnover, largely because of the unexpected surge in the yen's value against the dollar since last October.

Yokohama Rubber Share price and index released



Losses at Yokohama Tyre Corporation, its US subsidiary, totalled more than \$8m last year.

NEWS DIGEST

BREWING

Foster's beats forecasts on strong overseas sales

Surging overseas beer sales helped to propel Foster's, Australia's largest brewer, to second in beer brands in the UK, the group said yesterday as it released half year results. UK sales volumes rose 12.1 per cent, said Foster's Brewing Group, adding its moves to cut costs and restructure operations helped increase net profit by 14 per cent to A\$191.1m (US\$124.7m) in the first half to December. In the US, the group's beer sales rose 12.3 per cent.

The group's interim result exceeded analysts' expectations of about A\$180m and drove its share price up 4 cents to A\$4.99, close to last week's record of A\$5. Investors welcomed Monday's confirmation by Ted Kunkel, chief executive, that the group was rationalising its loss-making Chinese operations. Mr Kunkel said the sale of the Tianjin and Guangdong breweries would be "tidied up" by June 30 and its China business would focus on the Shanghai brewery, which had cut losses sharply and was expected to reach a "cash-flow break-even" position by 2001-2002.

Mr Kunkel said Foster's overall concern was on driving profits and margins. No acquisitions were planned for the second half and the group would concentrate on integrating and developing the businesses it recently bought for about A\$500m - the Austotel pub group, a German wine club and Maglieri Wines. Gwen Robinson, Sydney

POWER

Chinese company delays float

Shandong International Power Development postponed its listing on the Hong Kong stock exchange, citing "volatile market conditions". The postponement for a deal that was to be priced on Monday is another setback to plans by Chinese companies to list on the Hong Kong market this year, coming a couple of weeks after another international issue by a Chinese agricultural firm was postponed. Analysts said this SIPD deal was over-priced and poorly timed, given the concern about the mainland economy that has weighed heavily on the Hong Kong market. "If you don't get a good wind behind you in Hong Kong, these deals don't get done," said one market participant. SIPD said that speculation that the company was considering lowering the indicative issue price range was unfounded. The issue price range valued the company at a premium to other Chinese power companies listed locally. Rahul Jacob, Hong Kong

JAPAN

Daiwa Bank in double link

Daiwa Bank, one of Japan's largest banks, yesterday announced plans for an alliance with the Bank of Osaka and Bank of Kyoto, two other regional banks in the Osaka area. It could lead to the three banks creating a joint holding company and possibly merging, company officials said. Analysts said this was likely to lead to broader consolidation of the banking sector in Osaka. However, the three banks yesterday admitted that the initial stages of the alliance would probably be limited to specific, product-based, areas of co-operation, such as shared cash dispensers. The alliance appeared to have been triggered by Daiwa's need to stave off government pressure to reform by the end of the 1998 fiscal year. The Japanese banks are facing growing demands to demonstrate signs of restructuring as the "price" for a planned injection of up to Y25,000bn (\$221bn) of public funds into the banks before the end of March. Daiwa's shares yesterday closed down Y3 at Y163, while Bank of Kyoto and Bank of Osaka closed unchanged at Y284 and Y200 respectively. Gillian Tett, Tokyo

CHEMICALS

Mitsubishi to close plant

Mitsubishi Chemical, Japan's largest comprehensive chemical company, plans to close its ethylene plant in Yokkaichi by the end of next year, the company announced yesterday. It will be the first time that a Japanese petrochemical company has shut down an ethylene facility. The closure comes amid signs that Japan's petrochemical industry is suffering from severe over-capacity and high production costs. The capacity reduction achieved by shutting down Mitsubishi Chemical's third largest ethylene plant will amount to only 3.3 per cent of average total capacity. The shares rose 3.2 per cent to Y258. Philip Hall, analyst at Schroders, said: "The closure of the factory will only take place in one and a half years and the reduction in capacity is small with 270,000 tons. Until now, Mitsubishi Chemical's restructuring measures have not translated into higher profits." Julie Hess, Tokyo

Index sues Shanti in bid dispute

Index sues Shanti in bid dispute. The company is suing Shanti for breach of contract over the sale of shares in the company. The dispute is related to a bid for the company's shares. The company claims that Shanti failed to complete the bid as agreed. The case is currently in court.

NEWS DIGEST

Wood Ricard sale plan

Wood Ricard sale plan. The company is planning to sell its assets. The sale is expected to be completed in the next few months. The company is looking for a buyer for its assets. The sale is part of a restructuring plan.

Services

Frantour stake

Frantour stake. The company is buying a stake in Frantour. The stake is expected to be completed in the next few months. The company is looking for a way to expand its operations.

Disputes

Disputes. The company is settling disputes. The disputes are related to the sale of shares in the company. The company is looking for a way to resolve the disputes.

Share price range

Share price range. The company's share price is in a range. The share price is expected to rise in the next few months. The company is looking for a way to increase its share price.

Advertisement for the Renault Espace Alizé. The ad features a black and white illustration of a woman in a dress standing next to a Renault Espace Alizé. The text includes the slogan 'SEVEN SEATS?' and 'APART from all our favourite stories and characters, what are the essentials of a happy childhood? Security? Comfort? Doing things together—and getting on—as a family?'. It also lists features like air-conditioning, anti-lock brakes, and free servicing. The price is listed as £18,995. The Renault logo is at the bottom right.

COMPANIES & FINANCE: UK

LEISURE COMBINED GROUP WILL BECOME UK'S SECOND LARGEST HOTELIER AND CASINO OPERATOR

# Ladbroke makes £1.46bn bid for Stakis

By Elizabeth Robinson

Ladbroke, the hotels and gaming group, has offered to buy Stakis in a cash and share deal that values the hotels and casino company at £1.46bn (\$2.39bn), including £215m debt.

The combined group would be the UK's second largest hotelier after Granada, the second largest casino operator after Rank and the largest health club company.

David Michels, Stakis chief executive, who rescued the

Scotland-based company from near bankruptcy, will rejoin his old employer Ladbroke to head its Hilton International hotels division. He replaces David Jarvis who is leaving the company.

Peter George, Ladbroke chief executive, said: "This fits like a glove. I never thought we would get into the provincial casino market." He said he would use the absorption of Stakis's 22 regional casinos as an opportunity to restructure Ladbroke's own gaming operations.

Mike Smith, who currently heads that division, has been appointed chief executive of Rank, the leisure company. Ian Payne, who manages Stakis's casino division, may be appointed to head the combined gaming unit.

Ladbroke is offering Stakis shareholders 57.7p of cash plus 0.252255 new Ladbroke shares for every Stakis share held, as well as the Stakis final dividend of 1.75p a share.

Although Ladbroke proposes to pay for the deal in a fixed combination of 60 per

cent equity and 40 per cent cash, Stakis shareholders can "mix and match", electing to take any combination of cash and shares.

If the deal is successful, Ladbroke will rebrand Stakis's 54 hotels as Hilton, doubling the number of Hilton rooms in the UK to 16,000.

Ladbroke's five London casinos and 1,900 betting shops currently make it evenly balanced between hotels and gaming in terms of profits. After the deal, the group expects to derive

around two-thirds of its profits from hotels.

Ladbroke yesterday issued unaudited estimated results for 1998. Profits before tax and exceptional items rose 22 per cent to £276.9m with earnings per share rising 21 per cent to 17.5p.

Analysts praised the deal as offering a good fit. The companies complement each other geographically with no overlap; they both offer four-star hotels; and Stakis's Living Well health clubs already operate in 22 Hilton properties.

Mr George saw the Living Well clubs as a way to expand Hilton International overseas. "This gives us an extra dimension in terms of competition for hotel properties by offering health and leisure facilities."

Ladbroke approached Stakis in November after a strategic review in the summer of its hotel business. Mr George also said that talks last year on links with Hilton Hotels Corporation, the company that controls the Hilton name in the US, had come to nothing.

## There is even less room at the inn for small operators

Consolidation could be on the menu this year as leading groups seek to promote their brands, writes Elizabeth Robinson

Ladbroke has beefed up its Hilton brand at a stroke by buying Stakis's 54 hotels. It has doubled the number of rooms under the Hilton brand to 16,000 and should save £16m (\$26m) in costs by combining its administration and marketing arms with those of Stakis.

But according to some observers, the £1.16bn takeover - plus the assumption of £215m debt - may be the forerunner of even bigger deals.

"Consolidation has been expected in the industry for some time," said Ian Burke, chief executive of Thistle Hotels - until yesterday the UK's second largest hotels group. "We will see more of it in 1999."

Driving the consolidation is the fact that in an industry with a total of 550,000 rooms, no brand - at least until yesterday's deal - had more than 12,000 rooms. Although Granada is the UK's biggest hotelier with some 18,000 rooms, they are spread across several brands and price scales, from the budget Travelodge to the upmarket Le Meridien business.

By any standards this is a fragmented business. Mr Burke said: "I don't think 16,000 rooms for Hilton is the end of the story."

As for Thistle's own ambi-

tions - the company has 10,700 four-star rooms - Mr Burke would only say: "At the moment we are focused on improving our existing business. If other options come along, we'll have to look at them."

A consolidation would yield big savings. Bigger

**'There is still a desire for Hilton and Hilton Hotels Corporation to hook up again'**

hotel groups would also enjoy the benefits of larger reservations systems, loyalty programmes and wider brand recognition.

Ladbroke yesterday said that the deal had given it a combined database of 3m members of loyalty programmes.

UK hotels are still enjoying growth, albeit slower, in both occupancy and rates.

A survey of provincial UK hotels by BDO Hospitality, the hotel consulting group, found that in the 11 months to November 1998 occupancy rose 0.7 per cent, with average room rates increasing 7 per cent, giving yield

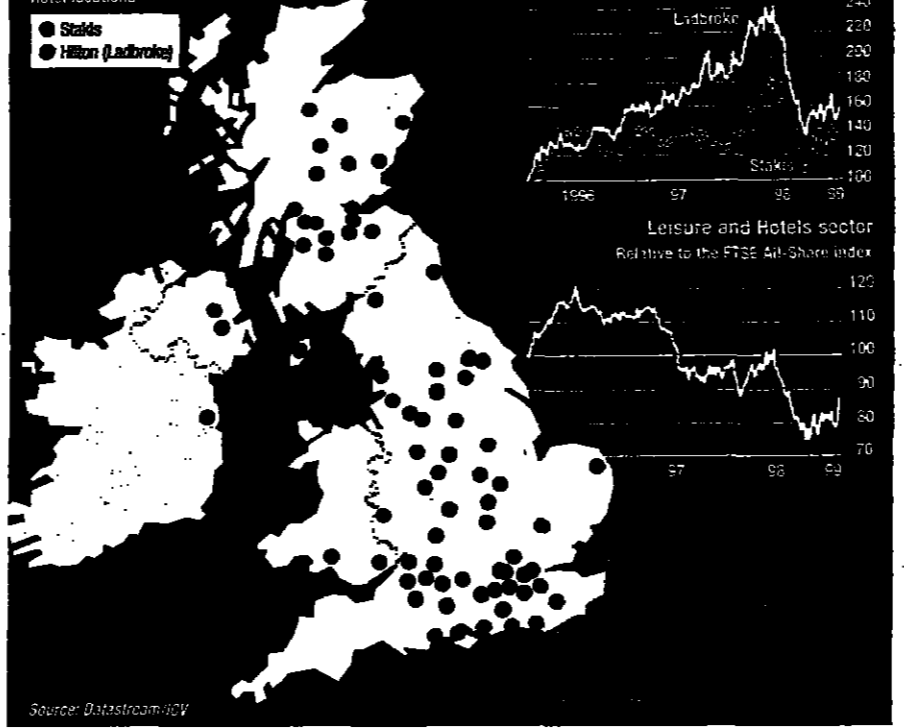
growth of 8 per cent. David Bailey, BDO associate director, said: "We noticed a slowdown in yield growth, particularly in London hotels, but the general market is still doing well."

Hoteliers expect this growth to continue. A recent BDO confidence survey found that 50 per cent expect to maintain or improve their business this year. "They're not as confident as last January, but these figures do not reflect a group of people who expect a nosedive," said Mr Bailey.

For Ladbroke the key to yesterday's deal is room rates. Occupancy at Stakis in particular is already high - about 78 per cent - so growth will come from increases in room rates. "This isn't just slotting two hotel groups together," said David Michels, the Stakis chief executive who will now head Ladbroke's hotel operations. "This is about room rates. What is more important than growth in occupancy is growth in room rate. We believe people will pay a premium for this brand name."

The Hilton name is one of the best recognised in the world, and Ladbroke operates it outside the UK. The expansion of the brand within the UK through the purchase of Stakis is just

Ladbroke's wider spread



one sign of Ladbroke's ambitions. Peter George, Ladbroke chief executive, yesterday said: "We will continue to build our business internationally."

However, the company cannot do this without a sideways glance at Hilton Hotels Corporation, the Californian group that controls

the brand in the US. The two groups have been in a long on-and-off courtship. Yesterday Mr George said: "There is still a desire for Hilton and HEC to get hooked together again. We both have that end objective."

Yesterday's deal, Mr George admits, was in part prompted by a breakdown in

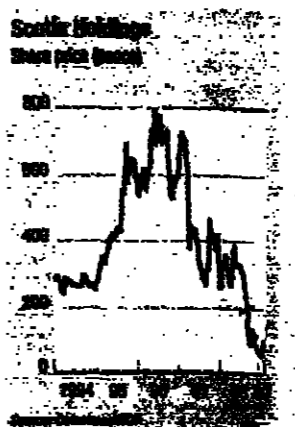
talks between the US group and Ladbroke. The two groups already enjoy joint marketing but clearly Mr George is seeking something bigger. The Stakis deal, he said, now makes the US alliance more solid. Observers speculate that a far closer relationship could be in the offing.

COMMENT

## Scotia Holdings

It is a measure of the neglect afflicting biotechnology companies that, yesterday morning, Scotia's market value was similar to its £50m-plus cash pile. One piece of good news and its shares jump 42 per cent. As usual, there is a strong element of jitters tomorrow. Olibra, the appetite suppressant, could end up in foods in markets worth up to \$75bn. Scotia will get 2.3 per cent in royalties on, say, 1 per cent of that market, the annual return will match Scotia's investment to date of less than £15m. But the products do not start to roll for two years. Foscan, used in laser treatment of cancer tumours, may be on the market sooner.

Scotia lost its partner for this drug last November, completing a rout of its shares. They are still only a quarter of last year's high. Investors should lay off the appetite suppressants.



Internet access

Free internet access is like a free lunch. It does not exist. But cheap internet access does. Its most successful UK providers, such as Dixons, have ditched the US model of subscription charges. Instead, they make money by venturing into the internet. This would not be possible in the US, where local calls are generally free.

The snag is that this practice, not just by Dixons but also Tesco and now Arsenal football club, has got up the noses of local telecommunications operators. They think the slice of the pie they receive - which is determined by the telecoms regulator and supposed to cover their costs - is too small. Unless they can show they are receiving less than their costs, the regulator should give this argument short shrift. After all, there is nothing to stop these same operators starting to emulate Dixons, as British Telecommunications seems belatedly to have realised.

Another gripe also looks dubious: that Dixons' business model is unsustainable. Not only is it far from obvious that the revenue from phone calls will be insufficient to cover the additional costs but Dixons expects in time to develop a new revenue stream from advertising.

But even if the business model does not stack up, the regulator will just have to cut its losses. There is no need for the regulator to act as nanny.

NEWS DIGEST

ENGINEERING

### Marine and turbine side gives lift to Vickers

Vickers, the UK engineering group in the throes of restructuring, yesterday said that trading profits last year dipped slightly after a decline at its defence systems division. But it added that a continuing improvement in results from marine and turbine components had helped it achieve a good second-half performance overall.

Vickers revealed the figures in a document dealing with its recommended cash offer for Ustain Holding, the Norwegian maritime equipment company. The UK company will pay £304m (\$490m) and take on £54.8m of debt for the acquisition, which is seen as an indication that it plans to focus on marine propulsion.

Vickers said it made a profit, before tax and exceptional items, of £55.6m for 1998. Pre-tax profits would be hit by a restructuring charge of £60.6m.

The business being acquired will be called Vickers-Ustain Marine, and will be headed by Baard Mikkelsen, the Ustain chief executive. Michael Peel in London and Valeria Sköld in Oslo.

RETAILERS

### Upbeat statement from Sainsbury

Sainsbury, the UK's fourth largest supermarket chain which issued a profits warning 12 months ago, yesterday claimed its business "has never been in better shape" as it reported a strong rise in current trading. Colin Smith, chief executive, said sales excluding new space and petrol rose 3 per cent for the first 17 weeks of the second half. Over the Christmas period, the six weeks to January 2, Sainsbury turned in a like-for-like rise of 2.9 per cent.

The increase stands in sharp contrast to the current trading statement on Friday from larger rival, J Sainsbury, which showed underlying sales growth of 1.2 per cent, or an actual decline excluding inflation. However, its shares fell 2p to 276½p, as analysts trimmed annual profit forecasts by about £5m to £345m. Peggy Hoffinger

INSURANCE

### Ace backs nuclear pool

Ace Global Markets, the UK subsidiary of the Bermuda-based insurance and reinsurance group, is to support the British Nuclear Pool, which provides about a quarter of worldwide insurance capacity for the nuclear industry. The British pool was established by insurers in 1956 at the prompting of the UK government to make the nuclear industry a more attractive insurance option. The high-severity, low-frequency nature of the risk had resulted in a shortage of capacity in the early years of the industry.

There are now 20 nuclear pools in the world. Known formally as the British Insurance (Atomic Energy) Committee, the British pool is the largest outside the US, with the ability to cover liabilities of £500m. Andrew Botger

DISTRIBUTORS

### Inchcape shipping side sold

Inchcape yesterday moved a step closer to its goal of focusing on international motor distribution with the £47.5m sale of its shipping services division. The group, which last March announced its plan to transform itself from a diversified trading company, has now sold four businesses. Inchcape Shipping Services has been bought by Electra Fleming, the venture capital group.

## Scotia deal with General Mills

By David Pilling

General Mills, the US food group, yesterday became the latest company to attempt to lure health-conscious consumers with "functional foods" when it signed an agreement to license an appetite suppressant from Scotia Holdings, a UK biotechnology company.

Olibra, a natural product that Scotia claims fools the gut into believing it is full, is part of a new wave of nutraceuticals - premium-priced food said to contain medicinal or other beneficial properties. Olibra will join spreads made by Johnson & Johnson and Unilever that help to reduce cholesterol.

Scotia shares, which rose sharply last week, rose a further 20p yesterday, closing at 89½p.

General Mills, with brands including Betty Crocker desserts and dinner mixes, Yoplait yoghurt, and Big G cereals, has exclusive rights to use Olibra in all food and beverages in the US, Canada and Mexico. The company, which has annual sales of \$8m, is believed to be investigating the possibility of including Olibra in seven categories of food, including soups, salad creams, cereals, desserts and yoghurts.

The terms of the deal were not disclosed, but General Mills will provide development, manufacturing and marketing costs, as well as making milestone payments and royalties. Olibra is sold in yoghurts in the UK, Sweden, Denmark and Finland under the brand name Mavil Produced by Skanemejerier, A Swedish dairy company, the yoghurt has gained about a 2 per cent market share.

Robert Dow, chief executive of Scotia, said: "General Mills has signed up that's a validation of the technology." He admitted there had been scepticism about whether Olibra worked.

## Rebus succumbs to US takeover

By Christopher Price

Disenchantment with the UK stock market has led Rebus, the information technology group, to agree a £171.9m (\$262m) takeover by Warburg Pincus and General Atlantic Partners, the US investment groups.

Rebus, which was demerged from CE Health, the insurance group, in 1996, has long complained about the low rating put on its shares by investors in the otherwise buoyant market for IT companies.

The 182p a share offer is at

a 32 per cent premium to Rebus's share price last Thursday, the day before news of the negotiations broke.

It represents a multiple of 32 times historic earnings and about 25 times prospective earnings.

Rebus shares opened at 89p when trading began on April 16 1998. They rose 18p to 107½p yesterday.

Ed McKinley, managing director of Warburg Pincus's European operations, said it would probably be "several years" before Rebus became a public company again.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total for year
Deight	77 to Dec 31	344.8 (28.9)	11.76 (12.94)	28.52 (28.73)	all	4.8	2.65	7.2
DF	6 mths to Dec 31	10.8 (8.94)	1.18 (1.14)	5.48 (5.21)	2.5	2.5	2.5	2.5
Financial Express	6 mths to Dec 31	81 (67.3)	13.2 (8.35)	15.2 (10.7)	1.3	1.05	1.05	1.05
Procter	6 mths to Dec 31	25.5 (11.3)	1.82 (1.05)	2.91 (2.5)				
Investment Trusts		NAV (p)	Attributable Earnings (p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year
Other Shareable	77 to Dec 31	22.3 (55.1)	1.17 (1.22)	7.51 (6.14)	5.1	Feb 26	4.5	9.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*After exceptional charge. †On increased capital. ‡Includes foreign dividend element.

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Mackie International Limited Springvale Foundry Limited Automatic Temperature Controls Limited. In Administrative Receivership. The Joint Administrative Receivers, Roger Powdrell and Tom Keenan, offer for sale a going concern the business and assets of Mackie International Limited, Springvale Foundry Limited and Automatic Temperature Controls Limited.

COVPAK LIMITED (In Administrative Receivership). The Joint Administrative Receivers, Neil Tombs and Mike Hore offer for sale the business and assets of Covpak Limited as a going concern.

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LEGAL NOTICES. Government of the Republic of Lithuania State Property Fund. The extension of the term for the privatisation of "Lietuvos Draudimas" (Lithuanian Insurance company).

LEGAL NOTICES. IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT. IN THE MATTER OF BORMAN UK LIMITED - and - IN THE MATTER OF THE COMPANIES ACT 1985.

COMMENT Scotia Holdings. The market for Scotia Holdings shares has been volatile since the company's announcement that it was to be taken over by the British Overseas Airways Corporation (BOAC).

NEWS DIGEST. Marine and turbine side gives lift to Vickers. Vickers has announced that it has secured a £100 million order for the marine and turbine side of a new class of offshore supply vessels.

Statement from Safeway. Safeway has announced that it has secured a £100 million order for the marine and turbine side of a new class of offshore supply vessels.

Shipping side sold. The shipping side of a major company has been sold to a new owner. The deal is expected to be completed in the next few weeks.

## ENVIRONMENT &amp; MANAGEMENT

## ENVIRONMENT CAMPAIGNING

## Greens gun for finance

Environmentalists have become increasingly aware of the pivotal role of financiers in the world economy, writes Vanessa Houlder

The threat of "green" activism has become a fact of life for many companies. Industries such as road building, mining, oil and chemicals are painfully aware of the risks of being singled out by environmental campaigners.

Now environmentalists are turning to new targets. In particular, they are squaring up to banks and financial institutions which are judged to have taken insufficient account of environmental issues in their lending decisions.

The National Wildlife Federation, the US conservation group, has recently extended its long-running campaign to improve the environmental awareness of government-backed development banks to the private sector. "We feel banks have a critical role to play," says Julie Tanner, senior financial analyst at National Wildlife Federation.

NWF has been one of more than 40 environmental and human rights groups protesting against the massive Three Gorges Dam project in China, which has been attacked for displacing more than 1m people and causing immense ecological damage.

When two years ago, a handful of banks - Lehman Brothers, Morgan Stanley, J.P. Morgan, BankAmerica, Smith Barney and Credit Suisse First Boston - sponsored bonds for the State Development Bank of China, the project's backer, they found themselves at the centre of a storm of protest.

The environmental groups wrote letters of protest and lobbied

shareholders against investing in the banks that helped to finance the project. Financiers became cautious about risking their reputation, raising the possibility that the project would be left with a hole in its funding.

"This lobbying effort indicates a wider trend. A new development in the 1990s is that environmental NGOs [non-governmental organisations] have started to target financial institutions, instead of governments and prominent public corporations," according to a report on financial institutions and sustainable development for the European Commission by Delphi, a consultancy.

In part, that is because financial institutions may present a more visible target than the company involved. It also reflects a growing awareness on the part of environmentalists of the pivotal role of finance in the world's economy. Government involvement in controversial projects has tended to fall, leaving a gap for increased private investment.

Banks, particularly European, are responding. In 1992 the United Nations Environment Programme brokered a statement by banks on the environment and sustainable development in which 115 banks made a commitment to incorporate the environment in all aspects of business.

A recent survey found that 60 per cent of these institutions had introduced specific environmental products and services, while 75 per cent of them had introduced a policy on environmental risk and corporate credit.

But even the pioneers admit a

lot of work remains. In the UK, Friends of the Earth is gathering material for a campaign directed at the City of London. "The plan is to try to have more of an influence on the financial sector generally," says Tony Juniper, of Friends of the Earth.

"We have a long way to go before the environment is integrated into our day-to-day processes," says Linda Descano, vice-president, environmental affairs Salomon Smith Barney. She acknowledges that US banks have been slow to sign up to the UN statement. "We have a problem getting US financial institutions to endorse the principle." In a litigious environment, banks are reluctant to endorse goals that they have not yet fulfilled.

**'Recycling is nice but stringent guidelines are what really makes the difference'**

Another concern voiced by Ms Tanner is that the banks are not disclosing their environmental guidelines to the public. As a result it is hard to judge their effectiveness. She also thinks banks have tended to emphasise internal issues concerning their environmental performance, rather than scrutinise their lending policies. "Recycling and energy management are nice but

stringent guidelines are what really makes the difference," she says.

But what can banks be expected to achieve? The most obvious point is that they should aim to protect the bank against litigation. The credit assessment process should monitor whether the company to which money is being lent operates in a high-risk sector or owns contaminated land.

"The risk of being held responsible for site clean-up costs if it foresees on a defaulting company has preoccupied many banks. A landmark case in 1990 held that a US bank was liable for the site clean-up costs on the grounds it had the ability and opportunity to influence its client, a paint company, in its environmental practices.

But bankers are reluctant to go further than is absolutely necessary in monitoring the companies they lend to. "There is a widely held, but wholly inappropriate, view that the role of financial institutions should be that of environment policemen," says Derek Wanless, group chief executive of the NatWest Group. "Trained and expert regulators have a difficult enough task."

Nonetheless, he says, there are several areas in which the environment affects banks: as investors, as designers of financial products, in pricing risk, in estimating returns, as polluters, as victims (in that climate change alters the nature of risk) and as stakeholders capable of exerting influence. "I do believe that we can and do have influence and attempt to exercise it," he says. "This is not an easy task. In a highly competitive corporate market, banks shy away from



attempting to influence the policies of large companies. But with smaller companies, many banks attempt to provide environmental information and products. The snag is that many environmental financial products require an environmental audit, the costs of which can easily exceed the discount on the loan.

As a result, progress in creating environmental products has

been slow. That has proved a source of frustration for many environmentalists, who are aware the banks will only use their influence for the benefit of the environment if they consider it to be in their broad interest.

But whatever the practical advances, there is little doubt that banks are increasingly prepared to voice their commitment to the environment. Sustainable

development - preserving natural and man-made capital for future generations - has particular relevance for the banking sector. Banks are in the risk business; ultimately, ignoring environmental issues may pose additional risks to their investments. In the view of Mr Wanless: "Financial growth and a healthy environment will go hand-in-hand in the long run."

## MANAGEMENT RECRUITMENT

## Trading in virtual reality

Richard Donkin looks at a computer system that enables a bank to monitor how aspiring traders react to real-life pressures

The job applicant was their first year at the Munich headquarters - another Nick Leeson in the making. Hiding losses seemed to come naturally to the graduate seeking a trading job at HypoVereinsbank, the German mortgage lender. By lunchtime his position was looking hopeless so he hung back at his screen carefully obliterating every disastrous deal he had made.

Yet-up to that point in the selection process he had seemed ideal. His grasp of the theory was excellent, his academic background and interview faultless. The bank had marked him down for a firm offer.

Not until he was at a screen, making deals in a full-blooded trading simulation, did his potential for deception emerge. No one was going to be criticised for making losses, but hiding them was inexcusable.

"He didn't realise the data is retained and the position came back on the screen after lunch. We would never have known that he was capable of such behaviour without seeing it for ourselves," says Susanne Ruoff, the bank's head of recruiting and development.

The "rogue trader" incident was recalled when the bank repeated the exercise for 69 MBA and PhD graduates flown to Boston this month from Europe and other parts of the US. HypoVereinsbank claims its trading and sales simulation for recruitment is leading the way.

The graduates were chasing some 30 vacancies. Starters with MBAs can expect to earn

DM120,000 (£61,000) (\$89,000) in their first year at the Munich headquarters.

A big advantage of simulation, says Ms Ruoff, is that it enables the bank to observe candidates' behaviour under pressure. The experience of a rogue trader bringing down a bank has focused attention on the ability of candidates to understand the principles of managing risk and balancing their position.

"It's not a question of where their profit and loss is at the end of the day, but how they behaved in achieving it," says Andrew Chisholm, the training consultant supervising the event at the Marriott Hotel.

Mr Chisholm and an associate, Paul Roth, a software specialist, assembled about 100 screens in the hotel's largest conference room. They built the exercise around Mr Roth's Risk Manager trading simulation software, normally marketed for dealer training among investment banks.

An important ingredient is the use of the bank's clients, many of whom have trading backgrounds, to place orders by telephone. The simulation is based on an actual day in the markets. In this case, April 9 1998 - the day on which the bank had launched an initial public offering of shares in Transac, one of its clients.

The designers had included a basket of equities, government bonds, US Treasury bonds, international bonds and about six currencies including some, like Polish zlotys, that reflected the bank's interest in the emerging markets of central Europe. Financial engineering candidates seek-

ing the so-called "rocket scientist" jobs would be asked to work out various derivatives.

"These are smart people," says Mr Chisholm, "but we want to test them in the actual conditions they would experience in the job. We don't want MBAs simply to act as order takers. They should be having conversations with their clients just as they would in reality. This job has a lot to do with attitude. All the candidates believe this is what they want to do but when it comes down to it

**His position was looking hopeless so he obliterated every disastrous deal he had made**

they are dealing with certain fundamentals. In the real world they are solving problems for their clients. The professionals have to manage risk."

Each of the candidates had undergone a day of training before being exposed to the reality of the dealing room.

The brief to the bank's clients was to be tough but fair while candidates were advised to engage their clients, keep focused and talk sense. "The clients you will deal with in this business have no time for conversation that's not related to their specific circumstances. If you let it stray you will hear the phone go dead," says Mr Chisholm.

The candidate teams made a jerky start in their first half-hour of adrenalin-fuelled trading, often forgetting to call clients or book trades. Sales people muddled their dealings with traders as clients slammed down their phones or berated them for offering unrealistic prices.

Dieter Musielak, head of risk management, treasury, in the corporate finance division of Siemens, was playing the role of an aggressive hedge fund manager.

His briefing notes said: "Likes size - in the best times the fund may turn around close to its entire position within a day." That may explain his decision to make a \$1bn trade minutes before the market closed. "I'm having so much fun," he says.

Not all the candidates shared his enthusiasm. Jeffrey Sink, studying for a maths PhD at Michigan University, decided the job was not for him: "I don't want to spend all of my life with someone yelling at me."

Anna Magdalena Haslinger, on the other hand, a candidate working in foreign exchange sales, says: "I thought it was tremendous. I could do this every day. It's not an easy job but you don't get bored."

At the end of the session traders and clients alike had made profits. "As the day wore on, the candidates began to get the hang of it," says Mr Chisholm. So did the professionals.

Chris Childs, a fund manager at Foreign & Colonial Management, says: "I took the opportunity to do an options trade which I'd never done before and I couldn't resist making a \$1bn trade. It made my day. I've never traded \$1bn and I expect I never will."



Trading places: candidates are put through their paces under the critical eyes of experts

Melanie Droyss

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## Notice of Annual General Meeting

NOTICE is hereby given to the Shareholders of THE OASIS FUND ("the Company") that the Annual General Meeting will be held at the registered office of the Company, European Bank of Business Centre, 6, route de Trèves, L-2673 Strassenberg, Grand Duché de Luxembourg on Wednesday 17 February 1999 at 5:00 p.m., or at any adjournment thereof. For the purpose of deliberation and voting upon the following agenda:

1. Submission of the Report of the Board of Directors and of the Auditor;
2. Approval of the Annual Report for the financial year ended 30 September 1998;
3. Discharge of the Directors in respect of their duties carried out for the financial year ended 30 September 1998;
4. Election of the Directors and Auditor for a term of one year;
5. Any Other Business.

Shareholders entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a Shareholder of the Company.

Resolutions on the agenda of the Meeting will require no quorum and will be resolved by the majority of the Shareholders attending in person or by proxy.

In order to be entitled to attend the Meeting, holders of bearer shares must deposit their bearer share certificates five working days prior to the Meeting with the following institution:

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Shareholders who cannot personally attend the Meeting are requested to use the prescribed form of proxy (available at the registered office of the Company) and return it at least five working days prior to the date of the Annual General Meeting to the Company, c/o Fleming Fund Management (Luxembourg) S.A., L-2286 Luxembourg.

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CURRENCIES & MONEY

Euro woes continue against the dollar

MARKETS REPORT

By Christopher Adams and Richard Adams

The euro sank further against the dollar yesterday as currency markets backed the strength of the US economy. Output in the eurozone is expected to be sluggish by contrast.

The euro fell from \$1.128 to \$1.125 versus the dollar in London trading hours, before recovering later. Fears that combined economic growth in the eurozone would fail to keep pace with the robust US economy helped push the fledgling currency lower. At one point, it touched a record low of \$1.122.

Further evidence of weakness in the German economy contributed to the slide. The latest data showed German industrial output was flat in December, following a 2.1 per cent fall in the previous month.

Comments by European central bankers did little to dispel the gloom. Hans Tietmeyer, president of Germany's Bundesbank, said the euro's recent fall should not be over-interpreted. "In today's foreign exchange markets, temporary technical changes, new information or estimates from one part of the world can prompt investors to reconsider their expectations," he said in an interview with Welt am Sonntag, the German newspaper.

The pound ended unchanged at \$0.689 versus the euro, held back by poor UK manufacturing data.

POUND IN NEW YORK

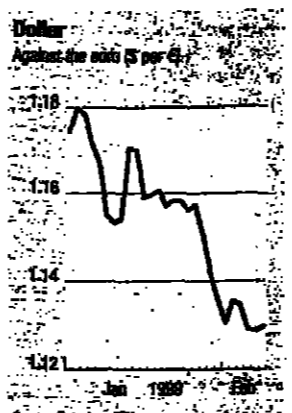
Strategists at Morgan Stanley Dean Witter, the investment bank, argue that the pound is undervalued.

The Euro is looking much less well supported than it did a year ago. Strong growth in the US and its high interest rates are positive for the dollar.

"The January labour market surveys leave little doubt that America's latest growth spurt is for real," says Stephen Roach, the investment bank's chief economist. "For a third month in a row, non-farm payrolls have expanded in excess of consensus expectations."

Mr Roach says the recent labour market data have two implications. First, in conjunction with reports on manufacturing activity and consumer spending, there is good reason to believe that there will be significant spillover from the "on-sized" 5.6 per cent real increase in gross domestic product in the fourth quarter.

Second, the Federal Reserve cannot afford to ignore the risk associated with potentially over-shooting growth. With the economy showing no sign of slowing back to a stable growth rate, inflation becomes a legitimate cause for concern.



Source: Commodity

monetary conditions index as a monetary policy target. The Reserve Bank said it would introduce a conventional cash interest rate on March 17 to replace the erratic index - which used a mix of a trade-weighted currency index and the 90-day New Zealand bank bill rate.

The rate will be reviewed every six weeks from its initial setting, but the Reserve Bank retains the ability to change the new cash rate when necessary. The New Zealand dollar strengthened against the US and Australian currencies when the shift was announced as traders hurried to unwind positions.

OTHER CURRENCIES

The New Zealand dollar surged on foreign exchange after the country's central bank announced it was finally to drop its ill-fated

taken based on the index. Currency traders had shorted the New Zealand dollar because the monetary conditions index had been persistently tighter than the Reserve Bank's target level.

The latest index level was minus 104, compared with the minus 400 level the Reserve Bank called "appropriate" in its last statement.

Some analysts predicted that the hawkish New Zealand central bank would set a higher official base interest rate than that implied by bank bills and the money market of around 3 per cent. "It is quite likely that the first cash rate will be set above the current 90-day bill yield of 4.25 per cent, perhaps as high as 5 per cent," said ABN Amro's research team in London.

The New Zealand dollar reacted by reaching its strongest level since April 1998, to be worth a touch below 56 US cents.

WORLD INTEREST RATES

Table with columns: Money Rates, Country, Rate, etc.

Table with columns: International Currency Rates, Country, Rate, etc.

Table with columns: Three Month Euro Futures, Country, Rate, etc.

Table with columns: Three Month Swiss Franc Futures, Country, Rate, etc.

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Country, Rate, etc.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Country, Rate, etc.

INTERNATIONAL BONDS

Table with columns: Country, Rate, etc.

CROSS RATES AND DERIVATIVES

Table with columns: Exchange Cross Rates, Country, Rate, etc.

UK INTEREST RATES

Table with columns: LONDON MONEY RATES, Country, Rate, etc.

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns: EMS European Currency Unit Rates, Country, Rate, etc.

BASE LENDING RATES

Table with columns: Bank Name, Rate, etc.

FINANCIAL TIMES SURVEYS

Table with columns: Survey Name, Rate, etc.

INDIAN INFRASTRUCTURE

Indian Infrastructure. Thursday February 25. For further information please contact: Chris Aston in London. Tel: +44 171 873 3230. Fax: +44 171 873 3241. Email: chris.aston@FT.com

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COLAS

Financial Times Surveys. Indian Infrastructure. Thursday February 25. For further information please contact: Chris Aston in London. Tel: +44 171 873 3230. Fax: +44 171 873 3241. Email: chris.aston@FT.com

FINANCIAL TIMES

No FT, no comment.

COMMODITIES & AGRICULTURE

Brazilian fall-out continues to affect softs

MARKETS REPORT

By Paul Solman and Gillian O'Connor
Brazil's currency devaluation continued to weigh on soft commodity markets yesterday...

The second biggest soybean grower and a substantial exporter of sugar and cocoa. The prospect of increased supplies coming on to the world market after last month's devaluation of the real has depressed prices...

Futures and Options Exchange ended yesterday at \$1.78 a tonne, down 5¢ from Friday's close. March cocoa was down 5¢ at \$865 a tonne, while March white sugar was \$230 a tonne in late trading against Friday's close of \$234...

But most analysts are still wary of saying that prices have touched bottom. Adam Rowley of Macquarie said it was difficult to justify any very bullish general predictions...

helped by output disruptions at other producers. Earlier estimates of the zinc surplus are being revised downwards. And the strike at Asarco's Montana smelter has helped push the lead price higher...

But, as Nick Moore of Fleming's remarked, "the destiny of the metal markets remains very much in the hands of the producers. Cutbacks must still feed through if this hard-fought gain is to be consolidated."

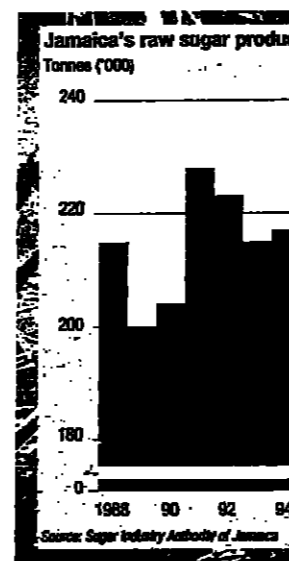
Jamaica government moves to prop up sugar industry

Tropicana becomes the fourth milling mill to be re-nationalised as part of a concerted rescue attempt, writes Canute James

In an effort to support its ailing sugar industry, plagued by inefficient production and poor weather, the Jamaican government has moved to provide financial aid and take control of an increasing number of sugar mills facing financial difficulties...

The government's move to regain control of Tropicana follows the re-nationalisation of the island's three largest mills from private owners to whom they had been sold...

The mills were sold for \$28.5m in cash and promissory notes, but were repossessed for the nominal price of \$1 (2.7 US cents) after the government had pumped \$77m into the Sugar Company to keep it going...



Jamaica's raw sugar production (tonnes)



The government is trying to prevent the collapse of an industry once the foundation of the island's economy

divested four years ago. "In addition to this, the government has been assisting other mills," said Evon Brown, chief executive of the Sugar Industry Authority...

Although output is higher than a year ago, and weather has been more favourable, even this higher output will leave the island short of sugar after it has met its export quota commitments...

Following the sharp fall in production to 180,000 tonnes of sugar last year due to poor weather in the region, the 220,000 tonnes production target set for the calendar harvest will be achieved, Mr Brown said...

Although output is higher than a year ago, and weather has been more favourable, even this higher output will leave the island short of sugar after it has met its export quota commitments...

Meeting the export quotas is vital to the survival of the industry as it would be hard for Jamaica to sell profitably on the world market...

The island's production costs are 33 cents per pound, four times more than the world market price, which has been further depreciated by the devaluation of the Brazilian currency...

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Copper, Aluminium, Zinc, Lead, Tin, Nickel), price change, high, low, and open prices.

Precious Metals continued

Table for Gold COMEX (100 Troy oz), Silver COMEX (50 Troy oz), and Platinum NYMEX (50 Troy oz) with price changes and levels.

GRAINS AND OIL SEEDS

Table for Wheat (100 bushels), Soybean Meal (100 tons), Soybean Oil (100 tons), and various oilseeds.

SOFTS

Table for Cocoa (100 lbs), Coffee (100 lbs), and Rubber (100 lbs) with price changes and levels.

MEAT AND LIVESTOCK

Table for Live Cattle (100 lbs), Lean Hogs (100 lbs), and Pork Bellies (100 lbs).

JOTTER PAD

Table for London Traded Options including Aluminium, Copper, and Soybean Meal.

ENERGY

Table for Crude Oil NYMEX (1,000 barrels), Heating Oil NYMEX (42,000 US gal), and Natural Gas NYMEX (100,000 cu ft).

PRECIOUS METALS

Table for London Bullion Market prices for Gold, Silver, and Platinum.

PULP AND PAPER

Table for Pulp (100 tons) and Paper (100 tons) with price changes and levels.

INDICES

Table for various commodity indices including the FTSE 100 and Nikkei 225.

LONDON SPOT MARKETS

Table for London Spot Markets including Gas Oil, Fuel Oil, and various oils.

CROSSWORD

Crossword puzzle titled 'No. 9,909 Set by GALAPAGOS' with a grid and clues.

ACROSS

- 1 Turbulent priest, Etonian, lacking one gift (12)
2 Burdened retired banker with papers (7)
3 Bad sonnet has an internal stress (7)
4 A number provided backing for gift (5)
5 Cricket official receives honour for devastating performance (6)
6 Trust island retreat to be up to the mark (10)
7 Brought up food, noisily (4)
8 Is politician possessed by demons (4)
9 Musical arrangement, reprinted at first, has uplifting conclusion (10)
10 He retails rubbish island, rejected (5)
11 Old folk appearing in twice-folky production (5)
12 Return faulty stereo after second breakdown (7)
13 Priest finds paradise in missing letter (7)
14 Truth identifies thieves' characteristics (5,7)

DOWN

- 1 Car noise disrupted play (6)
2 Issue raised with last supper, perhaps (4)
3 Curial tea break, say (10)
4 Being near the centre, local hero abandons outsiders (5)
5 Arranged in three parts, not one of a pair (7)
6 Sean holds court in iron maiden. How sweet (13)
7 Openings provided by mutual friends? (13)
8 Girl in racing team is making good progress (8)
9 Study return circuit, without being positive (7)
10 Most reindeer scurries about, wanting more (7)
11 In accordance with Anna's last wish (5)
12 Headgear somewhat like pill-box (4)

Solution to Saturday's prize puzzle on Saturday February 20. Solution to yesterday's prize puzzle on Monday February 22.





20040209

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

FT Offshore Unit Trust Prices are available over the telephone. Call the FT Offshore Help Desk on (+44 171) 872 4278 for more details.

Table of fund data including columns for fund name, price, and other metrics. Includes sections for 'Other Offshore Funds' and 'Offshore Insurances'.

Table of fund data, likely representing a specific category of funds.

Advertisement for institutional investors. Text: 'MORE PEOPLE LIVING LONGER INTO RETIREMENT. FEWER LEFT TO SUPPORT THEM. AN INSTITUTIONAL INVESTOR CAN GO GREY JUST THINKING ABOUT IT.' Includes a logo and the tagline 'Serving Institutional Investors Worldwide'.

Table of fund data, continuing the list of funds.

Table of fund data, continuing the list of funds.

Table of fund data, continuing the list of funds.

MANAGED FUNDS NOTES: This is a general notice regarding the management of funds, including information on fees, risks, and performance.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

BANKS, RETAIL

Table listing companies in the Banks and Retail sector with columns for company name, price, and change.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Rest sector with columns for company name, price, and change.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Mats. & Merchants sector with columns for company name, price, and change.

CHEMICALS

Table listing companies in the Chemicals sector with columns for company name, price, and change.

CONSTRUCTION

Table listing companies in the Construction sector with columns for company name, price, and change.

CONSTRUCTION - Contd

Continuation of Construction sector table.

DISTRIBUTORS

Table listing companies in the Distributors sector with columns for company name, price, and change.

DIVERSIFIED INDUSTRIALS

Table listing companies in the Diversified Industrials sector with columns for company name, price, and change.

ELECTRICITY

Table listing companies in the Electricity sector with columns for company name, price, and change.

ELECTRONIC & ELECTRICAL EQUIP

Table listing companies in the Electronic & Electrical Equip sector with columns for company name, price, and change.

ENGINEERING

Table listing companies in the Engineering sector with columns for company name, price, and change.

ENGINEERING - Contd

Continuation of Engineering sector table.

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FOOD PRODUCERS - Contd

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INSURANCE - Contd

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INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector with columns for company name, price, and change.

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INVESTMENT TRUSTS - Contd

Continuation of Investment Trusts sector table.

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INVESTMENT TRUSTS - Contd

Continuation of Investment Trusts sector table.

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

Table listing various investment trusts with columns for name, price, and change.

INVESTMENT COMPANIES

Table listing investment companies with columns for name, price, and change.

LEISURE & HOTELS

Table listing leisure and hotel companies with columns for name, price, and change.

LIFE ASSURANCE

Table listing life assurance companies with columns for name, price, and change.

MEDIA

Table listing media companies with columns for name, price, and change.

MEDIA - Continued

Continuation of media companies table.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies with columns for name, price, and change.

OIL INTEGRATED

Table listing oil integrated companies with columns for name, price, and change.

OTHER FINANCIAL

Table listing other financial companies with columns for name, price, and change.

PROPERTY - Continued

Continuation of property companies table.

SUPPORT SERVICES

Table listing support services companies with columns for name, price, and change.

PROPERTY - Continued

Continuation of property companies table.

SUPPORT SERVICES - Continued

Continuation of support services companies table.

TRANSPORT - Continued

Continuation of transport companies table.

AMERICANS

Table listing American companies with columns for name, price, and change.

CANADIANS

Table listing Canadian companies with columns for name, price, and change.

SOUTH AFRICANS

Table listing South African companies with columns for name, price, and change.

TRADED INDEX SECURITIES

Table listing traded index securities with columns for name, price, and change.

AIM

Table listing AIM (Alternative Investment Market) securities with columns for name, price, and change.

GUIDE TO LONDON SHARE SERVICE

Price and trading volume for the London Share Service are collected by... This section provides detailed information about the service, including how to use the data and contact information.

RETAILERS, FOOD

Table listing food retailers with columns for name, price, and change.

RETAILERS, GENERAL

Table listing general retailers with columns for name, price, and change.

TELECOMMUNICATIONS

Table listing telecommunications companies with columns for name, price, and change.

TOBACCO

Table listing tobacco companies with columns for name, price, and change.

TRANSPORT

Table listing transport companies with columns for name, price, and change.

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FT Free Annual Reports Club You can obtain the current annual reports of any company included with the FT... FT Cityline... The FT web site

LONDON STOCK EXCHANGE

Footsie slides again as SmallCap rise continues

MARKET REPORT

By Steve Thompson, UK Stock Market Editor
In a downbeat Monday performance, London's leading stocks extended their losing streak to a fourth session yesterday.

the FTSE 100 since the start of the year, were again sustained by the takeover news prevalent among engineering and other sectors.
But even the mid-caps were tainted by bursts of profit-taking, despite racing ahead in recent weeks as bids galore have emerged in the sector and as the house-builders have responded to five months of UK interest rate cuts.

At the close the FTSE 100 index was left with a 20.4 decline at 5,834.9, extending its fall over the past four sessions to 178.1 or 3 per cent.
And after a session of sub-

le shifts from plus to minus and back again, the FTSE 250 eventually ended the session 6.1 off at 5,206.4.
Unlike the senior indices, the FTSE SmallCap, which has led both the FTSE 100 and MidCap indices for dead since the start of the year, continued its impressive performance, closing the day at a session high of 2,217.1, up 7.2.

that there was either feast or famine in the small-caps, with the constant flow of takeovers in the area being matched by an equally constant flow of profit warnings.
The bids in the small-caps included software group Rebus, Limelight, the kitchens and home improvement group, and Cafe Inns, the north of England pub group.

Sentiment in London was hit by more damaging economic news, which saw industrial production in the UK slide 0.5 per cent in December, well in excess of a consensus forecast which looked for a 0.2 per cent decline.
That news, along with subdued producer price data, was seen as likely leading to more rate cuts in the UK, despite the fact that the Bank of England has taken place over the past five months.

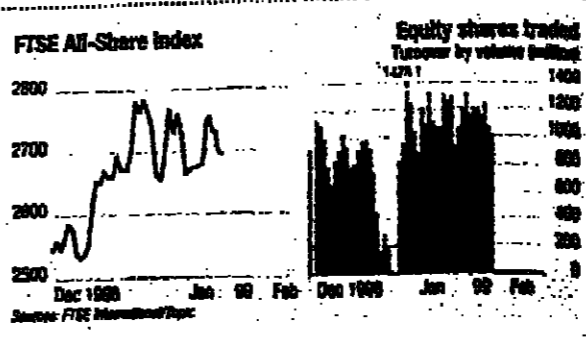


Table with columns: Index and value, FTSE 100, FTSE 250, FTSE SmallCap, FTSE All-Share, FTSE All-Share yield. Includes a sub-table for 'Best performing sectors' and 'Worst performing sectors'.

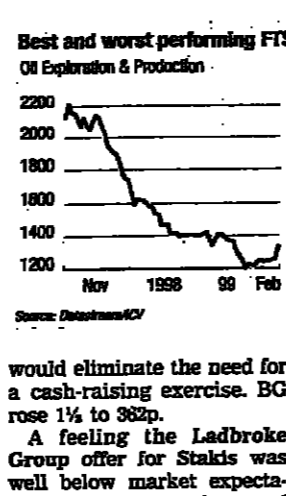
Rio puts on grand showing

COMPANIES REPORT

By Peter John, Joel Kibazzi and Martin Brice
The hunt for bombed-out cyclical stocks began to pursue the extractive industries and fished Rio Tinto out of its hiding hole.

on cost-cutting with the full-year figures on February 25. Rio jumped 39 to 790p and Billiton 11 to 126p.
Lasmo, the embattled oil exploration and production stock, jumped 14% to 118p as the market decided it was now or never for the bid.

The rise in the shares yesterday, coupled with turnover of 7.4m, suggested some investors considered the talks with Enterprise would be terminated and, with rivals having completed their due diligence, Lasmo was clearly in play.
However, there was a note of caution from Neil Perry of HSBC Securities. "The market is in danger of pricing in too much of the offer premium without an offer," he said.



It's very good news for Scotia."
Confirmation from British Telecommunications and Microsoft, the world's largest software group, that the two groups are to develop a new range of internet, intranet and corporate data services for mobile phone users across the world, helped shares in the UK technology giant resist the poor market trend. The stock hardened 7% to 935p in trade of 8.1m.

The selling of mobile operators Orange and Vodafone Group, left shares in both languishing. The former gave up 15 to 851p, while the latter fell 9 to 210.75p, with 12m dealt by the close.
Pelson suffered the worst fall in the FTSE 250 after the announcement by BT that it was to work with Microsoft, the US computing giant, to develop a new range of services for mobile phone users around the world.

FUTURES AND OPTIONS

Table with columns: Index, Open, Settle, Change, High, Low, Ex. vol, Open int. Includes sub-tables for FTSE 100 INDEX FUTURES, FTSE 250 INDEX FUTURES, FTSE 100 INDEX OPTIONS, and EURO STOXX FTSE 100 INDEX OPTIONS.

FT 30 INDEX

Table showing FT 30 index performance from Feb 2 to Feb 8, 1999. Columns include Index, High, Low, and % change.

STOCK MARKET TRADING DATA

Table showing trading data for various sectors: SEAD bargain, Equity turnover, Shares traded, Total turnover, Total shares traded, Total value traded, Total value traded (excl. IPO), IPO value, IPO shares, IPO price.

London market data

Table showing London market data: Shares and falls, 52 Week highs and lows, LIFFE Equity options, Total Rise, Total Falls, Total Contracts, Total Puts, Total Calls.

Enterprise gained 10% to 204p, partly dragged up by the takeover speculation but also on the belief that the collapse of talks with Lasmo would eliminate the need for a cash-raising exercise. BG rose 1% to 382p.
A feeling the Ladbroke Group offer for Stakis was well below market expectations helped shares in one of the UK's biggest gaming and leisure companies soar.

Let's face it, Ladbroke has managed to negotiate a very good deal. It is getting Stakis cheaply," said one leisure sector specialist.
Ladbroke said it had made a recommended cash and shares offer for Stakis, valuing the group at around £1.16bn. Investors moved strongly into Ladbroke, sending the shares 39 or 18.5 per cent ahead to 289p, by far the best performance by FTSE 100 constituents. Turnover of 27m made it one of the most heavily traded stocks in the benchmark.

Stakis was also in demand. The shares were the best performers in the FTSE 250 for most of the session before a late burst of profit-taking saw them relinquish the top spot. They still closed 16 up at 157p. Granada ended 22 off at £11.34p.
SmithKline Beecham moved forward in early trad-

LONDON RECENT ISSUES: EQUITIES

Table listing recent equity issues: Issue, Amount, Mkt. price, Mkt. date, Mkt. volume, Mkt. value, Mkt. price, Mkt. date, Mkt. volume, Mkt. value.

RIGHTS OFFERS

Table listing rights offers: Issue, Amount, Mkt. price, Mkt. date, Mkt. volume, Mkt. value, Mkt. price, Mkt. date, Mkt. volume, Mkt. value.

FTSE GOLD MINES INDEX

Table showing FTSE Gold Mines Index performance from Feb 2 to Feb 8, 1999. Columns include Index, High, Low, and % change.

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SmithKline ranking

Mark Brewer at ABN said SmithKline now ranked 10th in the world in terms of overall sales. The proposed merger between Astra and Zeneca merger is seen as increasing the pressure to be one of the global leaders. The shares were up 7 at best, but closed 2 better at 600p.
Scotia Holdings jumped 29 to 98p after it signed an agreement with General Mills for the US group to license Olibra, Scotia's appetite suppressant.
Dr Sally Bennett of Sutherlands said: "General Mills is now the biggest cereal seller in the US with turnover above \$6bn and although the deal won't impact for a couple of years,

The UK Series

Table showing UK Series performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

TRADING VOLUME

Table showing trading volume for major stocks: Issue, Volume, Change, Days' change.

FTSE Actuaries Share Indices

Table showing FTSE Actuaries Share Indices performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

FTSE Actuaries Industry Sectors

Table showing FTSE Actuaries Industry Sectors performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

Hourly movements

Table showing hourly movements for FTSE 100, FTSE 250, FTSE SmallCap, FTSE All-Share, FTSE All-Share yield.

FTSE 100

Table showing FTSE 100 performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

FTSE 250

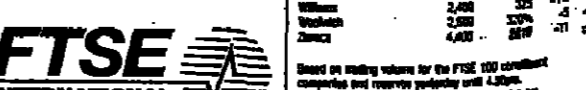
Table showing FTSE 250 performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

FTSE SmallCap

Table showing FTSE SmallCap performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.

FTSE All-Share

Table showing FTSE All-Share performance: E 50, Days' change, Euro index, E 50, Year, Gross yield, Net yield, P/E ratio, Dividend cover, Total Return.



Based on rolling values for the FTSE 100 constituent companies and covering the period 1st Jan 1999 to 1st Feb 1999. Data source: FTSE International Ltd. All rights reserved. 'FTSE' and 'Footsie' are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 90 are not shown. ‡ Values are negative. Dollar/Euro Source: FTSE Hedging.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

Table listing stock prices for various European countries including Germany, France, Italy, and the UK.

EUROPE (NON-EMU)

Table listing stock prices for non-EMU European countries such as Greece, Ireland, and Spain.

AMERICA

Table listing stock prices for major US indices like the S&P 500, Dow Jones, and NASDAQ.

ASIA

Table listing stock prices for various Asian markets including Japan, Hong Kong, and Singapore.

AFRICA

Table listing stock prices for African markets.

OCEANIA

Table listing stock prices for Australian and New Zealand markets.

MIDDLE EAST

Table listing stock prices for Middle Eastern markets.

COMMODITIES

Table listing prices for various commodities like oil, gold, and silver.

EUROPE (EMU) Prices in €

Table listing stock prices for various European countries including Germany, France, Italy, and the UK.

EUROPE (NON-EMU)

Table listing stock prices for non-EMU European countries such as Greece, Ireland, and Spain.

AMERICA

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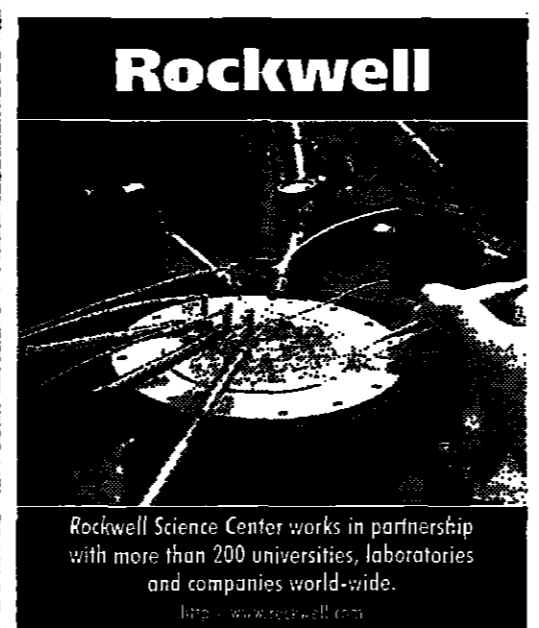
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FT/S&P ACTUARIES WORLD INDICES

Table showing FT/S&P Actuarial World Indices for various countries and regions, including Australia, Canada, France, Germany, Italy, Japan, UK, and USA.

Emerging markets:

Table listing emerging market indices for countries like Argentina, Brazil, Chile, Colombia, India, Indonesia, Korea, Mexico, Russia, Taiwan, Thailand, and Turkey.

FC investable indices

Table listing foreign currency investable indices for various countries including Australia, Canada, France, Germany, Italy, Japan, UK, and USA.

AMERICAS

Table listing stock prices for various American markets including Canada, Mexico, and the USA.

NEW YORK STOCK EXCHANGE PRICES

Symbol	Price	Change	Volume
IBM	115.00	+0.25	12,345,678
MSFT	34.50	+0.10	9,876,543
GOOG	205.00	+1.50	5,432,109
AMZN	35.00	+0.20	8,765,432
ORCL	28.00	+0.15	7,654,321
YHOO	110.00	+0.50	6,543,210
INTC	22.00	+0.10	5,432,109
QCOM	45.00	+0.30	4,321,098
TXN	38.00	+0.20	3,210,987
HPQ	32.00	+0.15	2,109,876
CRM	25.00	+0.10	1,098,765
ADSK	18.00	+0.05	987,654
PLD	15.00	+0.05	876,543
WDC	12.00	+0.05	765,432
QTEC	10.00	+0.05	654,321
WYNN	8.00	+0.05	543,210
WYNN	7.00	+0.05	432,109
WYNN	6.00	+0.05	321,098
WYNN	5.00	+0.05	210,987
WYNN	4.00	+0.05	109,876
WYNN	3.00	+0.05	98,765
WYNN	2.00	+0.05	87,654
WYNN	1.00	+0.05	76,543
WYNN	0.50	+0.05	65,432
WYNN	0.25	+0.05	54,321
WYNN	0.10	+0.05	43,210
WYNN	0.05	+0.05	32,109
WYNN	0.02	+0.05	21,098
WYNN	0.01	+0.05	10,987
WYNN	0.00	+0.05	9,876
WYNN	0.00	+0.05	8,765
WYNN	0.00	+0.05	7,654
WYNN	0.00	+0.05	6,543
WYNN	0.00	+0.05	5,432
WYNN	0.00	+0.05	4,321
WYNN	0.00	+0.05	3,210
WYNN	0.00	+0.05	2,109
WYNN	0.00	+0.05	1,098
WYNN	0.00	+0.05	987
WYNN	0.00	+0.05	876
WYNN	0.00	+0.05	765
WYNN	0.00	+0.05	654
WYNN	0.00	+0.05	543
WYNN	0.00	+0.05	432
WYNN	0.00	+0.05	321
WYNN	0.00	+0.05	210
WYNN	0.00	+0.05	109
WYNN	0.00	+0.05	98
WYNN	0.00	+0.05	87
WYNN	0.00	+0.05	76
WYNN	0.00	+0.05	65
WYNN	0.00	+0.05	54
WYNN	0.00	+0.05	43
WYNN	0.00	+0.05	32
WYNN	0.00	+0.05	21
WYNN	0.00	+0.05	10
WYNN	0.00	+0.05	9
WYNN	0.00	+0.05	8
WYNN	0.00	+0.05	7
WYNN	0.00	+0.05	6
WYNN	0.00	+0.05	5
WYNN	0.00	+0.05	4
WYNN	0.00	+0.05	3
WYNN	0.00	+0.05	2
WYNN	0.00	+0.05	1

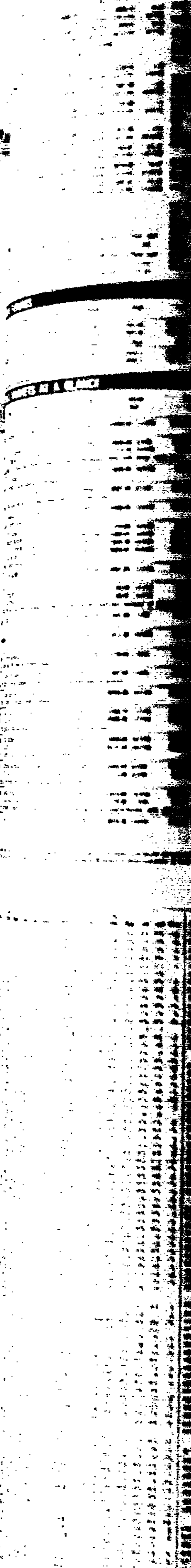
**IN.SECTS (Pan European Sector Indices from EuroBench®)**

The IN.SECTS - Pan European equity sector indices from EuroBench® - consist of 20 equity sector indices that track the performance of 20 different sectors of the European market. The IN.SECTS are based on the EuroBench® index, which is a free float market capitalization weighted index of all European stocks. The IN.SECTS are available in real time on the FT.com website.

Sector	Index	Change
Automotive	1234.56	+12.34
Chemicals	987.65	-5.67
Consumer Goods	543.21	+8.90
Energy	210.98	+3.21
Financials	765.43	-2.10
Healthcare	321.09	+6.54
Industrials	109.87	+1.23
IT	654.32	+4.56
Media	210.98	+0.98
Telecom	765.43	-1.54
Utilities	321.09	+2.34
Real Estate	109.87	+0.56
Transportation	654.32	+1.87
Other	210.98	+0.43

**X-Y-Z**

Symbol	Price	Change
ABC	10.00	+0.10
DEF	20.00	+0.20
GHI	30.00	+0.30
JKL	40.00	+0.40
MNO	50.00	+0.50
PQR	60.00	+0.60
STU	70.00	+0.70
VWX	80.00	+0.80
YZA	90.00	+0.90
BCD	100.00	+1.00
EFG	110.00	+1.10
HIJ	120.00	+1.20
KLM	130.00	+1.30
NOP	140.00	+1.40
QRS	150.00	+1.50
TUV	160.00	+1.60
WXY	170.00	+1.70
ZAB	180.00	+1.80
ACD	190.00	+1.90
DEF	200.00	+2.00
GHI	210.00	+2.10
JKL	220.00	+2.20
MNO	230.00	+2.30
PQR	240.00	+2.40
STU	250.00	+2.50
VWX	260.00	+2.60
YZA	270.00	+2.70
BCD	280.00	+2.80
EFG	290.00	+2.90
HIJ	300.00	+3.00
KLM	310.00	+3.10
NOP	320.00	+3.20
QRS	330.00	+3.30
TUV	340.00	+3.40
WXY	350.00	+3.50
ZAB	360.00	+3.60
ACD	370.00	+3.70
DEF	380.00	+3.80
GHI	390.00	+3.90
JKL	400.00	+4.00
MNO	410.00	+4.10
PQR	420.00	+4.20
STU	430.00	+4.30
VWX	440.00	+4.40
YZA	450.00	+4.50
BCD	460.00	+4.60
EFG	470.00	+4.70
HIJ	480.00	+4.80
KLM	490.00	+4.90
NOP	500.00	+5.00



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GLOBAL EQUITY MARKETS

US INDICES

Table of US stock indices including Dow Jones, S&P 500, and NASDAQ, with columns for date, high, low, and change.

US DATA

Table of US economic data including market activity, ISM index, and housing starts.

JAPAN

Table of Japanese stock indices and market activity.

FRANCE

Table of French stock indices and market activity.

GERMANY

Table of German stock indices and market activity.

UK

Table of UK stock indices and market activity.

INDEX FUTURES

Table of US index futures including S&P 500, Dow Jones, and NASDAQ.

WORLD MARKETS AT A GLANCE

Large table providing a global overview of equity markets across various countries, including Australia, Canada, Europe, and Asia.

THE NASDAQ-AMEX MARKET GROUP

Extensive table listing individual stocks traded on the NASDAQ and AMEX exchanges, including company names, prices, and volume.

AMEX

Table of stocks listed on the American Stock Exchange (AMEX).

EASDAQ

Table of stocks listed on the Electronic Automated Stock Exchange (EASDAQ).

# STOCK MARKETS

## Bourses drift on wave of economic doubts

### WORLD OVERVIEW

Global equities picked up yesterday where they had left off last week, drifting lower amid nagging economic doubts and concern for Wall Street's highly charged technology sector, writes Jeffrey Brown.

Asia continued to trade lower, while in Europe the broad tone also matched the mood of recent sessions, taking its cue from the latest batch of industrial figures from Germany, where output in December was unchanged.

Although the outcome was widely seen as a possible bottoming-out of the cycle, it was an argument that carried little weight coming on top of last week's 2.8 per cent decline in December industrial orders.

The overall numbers showed German industrial output for 1998 shrank 0.8 per cent, whereas most analysts had expected a figure in the region of plus 0.1 per cent.

There was no comfort in any of this for the Frankfurt market, which continued to lag other core euro-zone members. The Xetra Dax index, which has a heavy weighting of basic industry groupings, is now almost 20 per cent short of its peaks of last July.

Wall Street had no support to offer in early trading. Having tumbled 5 per cent last week, the Nasdaq composite index, the benchmark for US tech shares, remained groggy in spite of a better showing by sector leader Microsoft after last week's near 10 per cent shakeout.

### MARKET FOCUS

## Italians learn to love the euro

The latest convert to the attractions of the Milan stock market has been Massimo D'Alema, the first former member of the Communist party to become prime minister of Italy.

On a visit to Milan's new privatised stock exchange last month, Mr D'Alema said he was embarrassed to admit he had visited the New York exchange before coming to the Milan bourse.

## Dow slips as alliances fail to inspire

Wall Street lost early momentum, trading lower by midday as a series of alliances in the communications and computer sectors failed to inspire the broader market, writes John Labate in New York.

By early afternoon the Dow Jones Industrial Average was down 49.17 or 0.53 per cent to 9,255.07. The broader Standard & Poor's 500 index was down by less than a point at 1,238.56.

## Bonds put Frankfurt in shade

### EUROPE

Concerns about financial instability in Asia, Russia and Brazil, combined with higher yields in the bond market, sent FRANKFURT to a lower close.

The pullback reversed early gains that greeted the setback for Chancellor Gerhard Schröder's Social Democrats in Sunday's Hesse state election.

The Xetra Dax index, which peaked at 5,174.25 early in the day, closed 45.04 lower at 5,028.44.

BMW soared 657.49 or 8.6 per cent to 7,726.49 as investors registered a positive response to Friday's boardroom changes. The stock saw upgrades from Goldman Sachs and Deutsche Bank.

Shares of IBM were down 5% to \$164.47 after the company said it had entered a marketing alliance with five leading record companies.

Nextel Communications gained 1 1/2% or more than 5 per cent to \$31 1/2 after the company announced a wireless service alliance with internet company Netscape Communications.

ING and Akzo Nobel were given a mixed reception after their inclusion in Salomon Smith Barney's list of European best picks.

Among stocks to benefit from fresh takeover news, Acer gained 415.9 or 8.4 per cent to 5,205 after it said it would buy 65 per cent of tour operator Frantour from state-controlled SNCF.

Alcatel defied the downward trend in telecoms following news that a planned link-up with Motorola would add \$1bn to sales over four years. The stock gained 63.90 to 626.70.

ABB, up 11.40 to 144.50, and Peugeot, up 11.50 to 1136, benefited from the sacking of BMW's chairman, which analysts said, made the German company a potential bid target.

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## Currency scares leave investors unperturbed

Private equity investors in the US have not lost their appetite for Latin American shares in spite of the currency turmoil in the region, according to a survey by PWC.

A total of 67 per cent of the funds polled said the crisis would not affect their investment plans in 1999.

## Liberty gives Jo'burg life

Johannesburg ended on a positive note with the market concentrating on financials as expectations grew for a high-profile merger and a cut in interest rates.

## ASIA PACIFIC

Shares in TOKYO rose after five days of decline, on the back of a recovery in the Japanese bond market and the strengthening of the US dollar, writes Julie Hess.

## Tokyo halts five-day decline

Shares in TOKYO rose after five days of decline, on the back of a recovery in the Japanese bond market and the strengthening of the US dollar, writes Julie Hess.

Investors were relieved that the dramatic fall in bond prices had come to an end, with the benchmark 10-year government bond's yield falling 20 basis points from Friday's close to 2.16 per cent.

Measures announced by the finance ministry on Sunday, including lighter conditions for brokerages to accept client's stocks as collateral, helped the market rebound.

SEATTLE saw early gains wiped out as futures-linked sales emerged in late trading. The composite index finished 6.001 or 1.1 per cent lower at 545.38, off a high of 558.88, which reflected expectations of an upgrade of the country's rating by Moody's.

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## INVESTEC2

Investec is moving to 2 Gresham St, EC2 in the heart of The City. This move brings together under one roof, Investec and its most recent acquisitions, which include some of The City's most established names: Hambros plc, Carr Sheppards, Henderson Crosthwaite, Guinness Mahon, Guinness Flight and Hambro Asset Management and their various subsidiaries.

Investec, ranked amongst the world's top 300 banks, specialises in asset management, private and investment banking. 2 Gresham St, London EC2V 7QP. For further information call 0171 283 9111.

**INVESTEC**  
SPECIALIST BANKING GROUP



JP 11-60 1.50

# Italians learn to love the euro

Support for the euro in Italy has been strong since the first referendum in the October 1996 election. The Italian government has been successful in convincing the public that the euro is a better option than the dollar. The Italian government has been successful in convincing the public that the euro is a better option than the dollar. The Italian government has been successful in convincing the public that the euro is a better option than the dollar.

Paul...

FINANCIAL TIMES SURVEY <http://www.ft.com/ftsurveys/>

# THE BUSINESS OF TRAVEL

TUESDAY FEBRUARY 9 1999 Quarterly review

## Millennium menu is simmering

London is gearing up fast for turn-of-year celebrations. But 2000 may not necessarily bring a business boom, says Ken Goffon

London is now being actively promoted as Millennium City by its tourist board and convention bureau, and even its competitors reluctantly admit that, because of its connections with the measurement of time, it has a strong case. The fact that the Meridian line runs through Greenwich, an accident of history, is one of London's three trump cards. The second is the city's long history, making it attractive to professional associations wanting to return to their roots. Finally, there is the sheer amount of money being invested in new facilities.

"The Millennium Dome has taken a lot of flak, but at least it is evidence that London is doing something," says Rebecca Byrne, business development manager for the London Convention Bureau. The Dome, Greenwich's great inverted wok, will be available for corporate entertainment.

Also on the south side of the River Thames, the Tate Gallery's South Bank extension in a converted power station, and Vincopolis, a new and permanent home to wine, will be in full swing by 2000. And, although it is already open, one should not overlook the appeal of the recently-created Globe Theatre to corporate audiences keen to commune with William Shakespeare, one of the icons of western culture, at the start of the new millennium.

To all of these attractions can be added a number of new or extended facilities, though, significantly, London does lack the very large-scale facilities now being built in other cities, and this



could be a weakness in the future. The Palais des Congrès in Paris can seat 3,700 in one room, and Barcelona is planning to add further large-capacity venues.

In London, the ExCel conference and exhibition centre at the Royal Victoria Dock is costing £300m; additional conference and exhibition space at the Stakis London Metropole carries a £90m price tag; Earl's Court, Olympia, and the Business Design Centre in Islington are also investing in refurbishment and expansion.

"The totality of investment in and around the millennium, in tourism and leisure facilities, is about \$5bn," says Ms Byrne's colleague, marketing director Sandra Elliott. "We are using that message, that there is lots to see that is new and different, to sell London well beyond the year 2000."

As for assessing the demand for millennium meetings, in London or elsewhere, it is a little early to say. Corporate clients are a significant part of the market, and they frequently work on conference lead times of a mere six to nine months.

The other big source of business is the international, professional convention sector, which operates in a completely different way. Their huge get-togethers, often involving thousands of delegates, take place on regular two, three or four-year cycles. Decisions on where they will meet are frequently taken five, or even 10, years ahead. This means that most of the conventions due to be held around 2000 are already "60s deals" so far as the

booking of venues is concerned. Even so, the "millennium factor" may well have influenced the choice of destination. It did in the case of the American Bar Council, which is holding what it terms its London Sessions in the city for the first time since the mid-1980s. This convention, based on the Queen Elizabeth 2 Centre, will bring 11,000 US lawyers, plus partners, to town in July 2000.

Others heading for London include the International Advertising Association and the International Real Estate Federation. Not surprisingly, however, the World Burns Federation concluded it should be in Scotland for its millennium clan gathering, and has booked into Glasgow's Scottish Exhibition and Conference Centre (SECC).

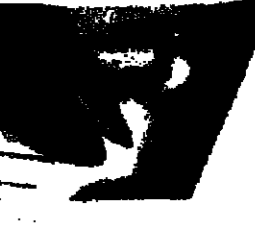
Gill Price, the SECC Centre's general manager, says trade associations and professional bodies which hold conventions have not been tempted to tamper with their normal booking cycles because of the millennium. If their meeting is normally held in September, it stays in September.

"We have many more events still at a provisional stage, including enquiries from people who want to be here in 2001, I'm delighted to say. So we're not concerned about talk of an enormous peak in the year 2000, dropping into a bottomless pit in 2001."

Industry specialists seem to agree that on the corporate events side, too, the millennium makes a great story line, but is not, in itself, a reason to hold a conference. Bill Goeling, marketing and sales director for Greenleaf Hotels and Leisure, which owns the De Vere chain, says it is already being used as a theme for meet-

### In this review

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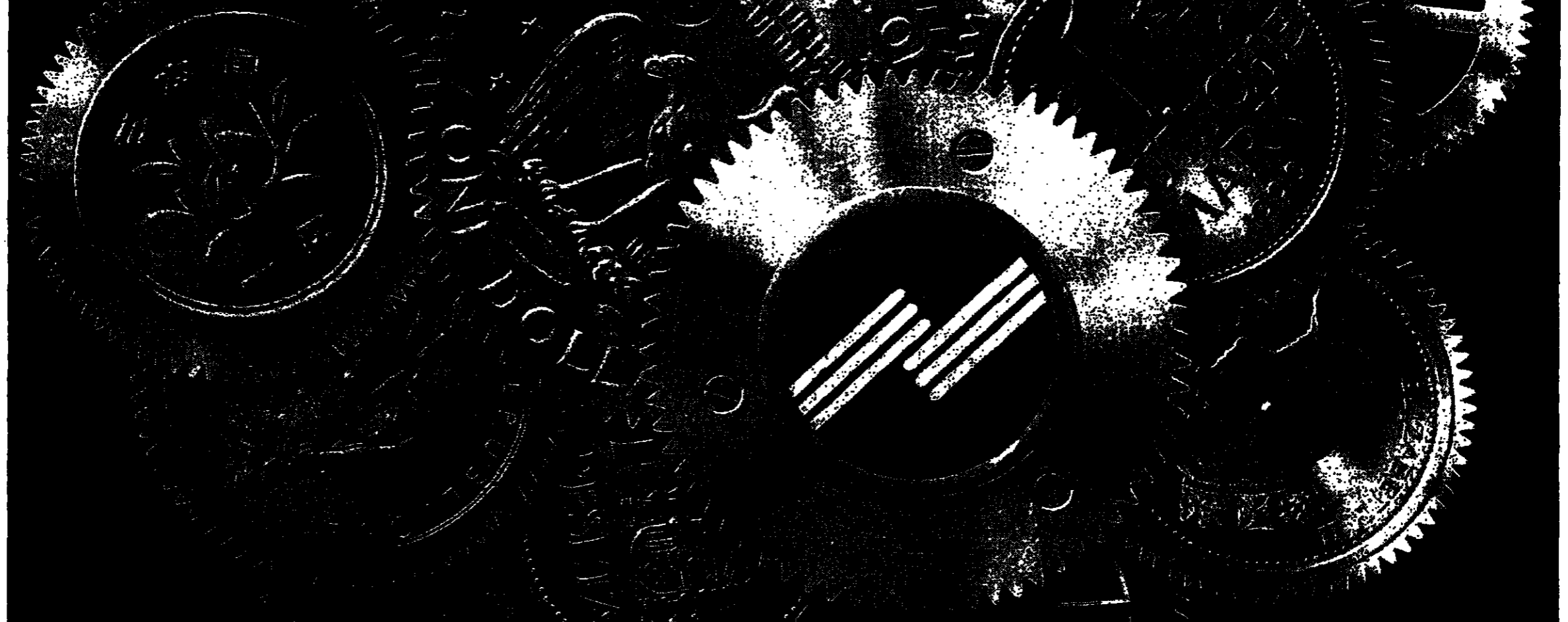


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Production editor: Ian Macdonald  
Designer: Philip Hunt  
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# FIERA MILANO makes for good business



### Exhibition Calendar from January to May 1999:

<p><b>16-17 January</b> XXXIV ESPOSIZIONE INTERNAZIONALE CANINA DI MILANO International Dog Show in Milan</p> <p><b>22-25 January</b> CARTY '99 International Exhibition of stationary, paper and cardboard products, articles for school and fine arts.</p> <p><b>22-25 January</b> GISEH '99 International Exhibition of gift articles, perfume items, costume jewellery, smokers' articles.</p> <p><b>22-25 January</b> CERAMART '99 Exhibition Market of Typical Handicraft Products.</p>	<p><b>22-25 January</b> SALONE INTERNAZIONALE DEL SINDACATO '99 International Toy Exhibition Model-Making, Hobbies, Christmas Decorations, Carnival Items.</p> <p><b>24-25 January</b> MIAH WINTER '99 International sportswear, sports articles and camping equipment Exhibition.</p> <p><b>5-7 February</b> MIFLOW International Trade Show of cut-flower and ornamental plant production, horticultural equipment, Accessories and Services.</p> <p><b>5-6 February</b> RACES SPINNA International Exhibition of Tableware, Household and Gift Items - Silverware - Goldsmiths' Items - Watches.</p>	<p><b>18-20 February</b> SALONE DELLO STUDENTE E DEL LAVORO GIOVANI - CAMPUS ORIENTA School and training courses guidance.</p> <p><b>23-25 February</b> SABIA 99 - tessile &amp; accessori Textile proposals for Spring/Summer 2000 collections.</p> <p><b>24-25 February</b> INT '99 International Tourism Exchange.</p> <p><b>26 February - 1 March</b> MODA MILANO - MODA MILANOVERDEBONA February - March (date to be defined) MILANO COLLECTION BONA Women's wear - Fall/Winter 1999/2000 Collections.</p>	<p><b>4-7 March</b> SONI EXPO International Exhibition of Musical Instruments, High Fidelity, Video, Consumer Electronics and Multimedia.</p> <p><b>CARTOONEX</b> Comics and Cartoons Show.</p> <p><b>MILANOPROFESSION</b> Trade Fair of Publishing and Multimedia Support for Professions.</p> <p><b>"R" - SALONE DEL LIBRO E DELLA COMUNICAZIONE MILANO</b> "R" - Religious Book and Communication Show.</p> <p><b>10-12 March</b> PROMOTION EXPO Exhibition of promotional objects and business gifts, Promotional services. Point of purchase advertising materials and objects.</p>	<p><b>10-13 March</b> TMI EXPO International Exhibition of Technologies and Services for Environment.</p> <p><b>10-13 March</b> L&amp;L SCURITECH EXPO Exhibition Forum of Technologies for Fire-fighting, Workplace Safety and Hygiene, Civil Defence.</p> <p><b>12-14 March</b> MILANOPEL International Private Exhibition.</p> <p><b>12-14 March</b> PROFESSOR Exhibition of health and physical well-being.</p> <p><b>12-15 March</b> EXPOSALUTE Exhibition of health and physical well-being.</p> <p><b>12-15 March</b> SABEN - INTERSAN</p>	<p><b>18-21 March</b> 7P MIPEL International Leather Goods Exhibition.</p> <p><b>18-21 March</b> MIFUR Fur and Leather Exhibition.</p> <p><b>24-27 March</b> SALONOCAD '99 International Computer Aided Technologies Exhibition.</p> <p><b>25-29 March</b> EXPO FOOD '99 International food and beverages exhibition.</p> <p><b>29-29 March</b> EXPO VIP '99 The food service research and experimentation.</p> <p><b>29-29 March</b> MIAET Modern and Contemporary Art Fair.</p>	<p><b>13-15 April</b> SALONE INTERNAZIONALE DEL MONDIE SALONOCOMPLEMENTO Furnishing Accessories Exhibition.</p> <p><b>13-15 April</b> SALONOCUCINA/ERROCUONA 13th International Kitchen Furniture Exhibition.</p> <p><b>13-15 April</b> SALONOFFICINA/EMU International Office Furniture Exhibition.</p> <p><b>6-8 May</b> ZOOMARK INTERNATIONAL International Exhibition of Products and Accessories for Pets.</p> <p><b>7-10 May</b> MIDO '99 International Optics, Optometry and Ophthalmology Exhibition.</p>	<p><b>8-10 May</b> CASA AUREA Home Living Exhibition.</p> <p><b>18-22 May</b> FORUM ITALIA Exhibition and Meeting on Management, Administration and maintenance of condominiums.</p> <p><b>18-22 May</b> EITEC 18th International Electrotechnical and Electronics.</p> <p><b>20-25 May</b> MODAPERMA International Knitwear and Clothing Exhibition.</p>
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BOOKING POOL by Amon Cohen

# Danes go 'club' to buy their cut-price tickets

Airlines are finding they need a place at the negotiating table as a group of companies flexes its purchasing muscle

Travel purchasers of the world unite! A consortium of 13 medium-sized Danish companies, which achieves impressive savings on its members' travel budgets, believes corporations in different countries could reduce their flight bills significantly by working together.

The reasoning offered by Danish Travel Pool (DTP) is simple. Carriers almost always offer lower fares outside their domestic market, where dominance of the route network allows them to keep fares higher. If, say, a Canadian Travel Pool were formed, DTP would buy Air Canada and Canadian Airlines tickets on its behalf. DTP would reciprocate by purchasing SAS tickets on behalf of DTP.

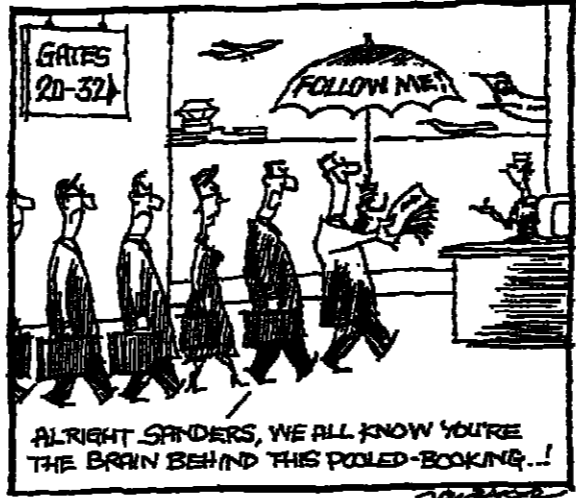
Whether the airlines would agree to such blatant undermining of their home advantage is uncertain, but the track record of DTP within Denmark suggests its ideas are worth examining. Soren Schodt, DTP's manag-

ing director, claims that its members, who together spend DKK600m annually on travel, achieve a 10 to 25 per cent greater reduction on air fares than if they were to buy as individual companies.

"Working together allows us to negotiate very good agreements with airlines," says Mr Schodt. "You need to spend DKK500,000 with an airline before it will give you any sort of deal, and at least DKK1m to achieve a good one. We would not achieve those figures on most routes unless we acted together."

Most DTP members have heavy traffic on five to 10 routes which would secure them discounts in their own right. By acting together they are all entitled to discounts on 40 routes, which account for 80 per cent of their combined ticket requirements.

Enhanced buying power is by no means the only advantage of collaboration. The status of DTP as a joint-venture gives it the advantages of an in-house department as



well as an outsourced service. The consortium handles many of the functions normally assumed by a company's travel agency, including collection of purchasing data and negotiating with suppliers. Since DTP is a non-profit-making organisation it handles these functions at a lower cost.

DTP does use an agency, Dan Transport, for reservations and ticketing. These are functions which require licensing, bonding and low-grade labour, and are therefore cheaper to outsource fully to a larger entity.

Mr Schodt says a Danish company would normally pay an agency 8 to 12 per cent of its annual travel expenditure to handle all its travel requirements. DTP members pay the consortium an annual fee of 2.6 to 3.7 per cent and a further 2 to 5 per cent to Dan Transport.

DTP also claims that its semi-internal status gives it better control over travellers. One of the greatest challenges for business travel agency staff is standing up to senior executives of client companies when they attempt to book a flight outside corporate policy. It is

ON-LINE RESERVATIONS by Amon Cohen

# Options galore at the touch of a button

The computer chooses between the standard and negotiated fares to offer the lowest available price

Much fuss has been made recently about the miracles of automated booking systems which allow business travellers to make reservations from their desktop or laptop computers.

In reality, few companies have adopted such systems. Reasons for their reluctance include the preoccupation of IT departments with pressing issues such as introduction of the euro and Year 2000 compliance.

The US has far more users of self-booking tools than any other country, but even there only 20 per cent of corporations have an on-line reservations system, according to a survey for Business Travel News. A mere 5 per cent of travellers use the technology instead of telephoning their travel agents.

One exception to this is the Dallas semiconductor manufacturer Texas Instruments, which spends \$60m annually worldwide on travel and has 8,700 travellers in the US alone. It introduced TravelChoice, a customised version of a self-booking system made by Internet Travel Network in the US in 1997 and will extend it to the UK, France and Germany later this year.

The system is already bearing results. Travel customer services manager Melissa Lopez says 15 to 20 per cent of the company's travel originating in the US is now booked through TravelChoice, a figure she expects to rise to 40 per cent for domestic travel by the end of this year.

This will make a crucial difference. TI predicts investment in the technology will start to bring savings once usage hits 25 per cent.

Using self-booking creates savings in two ways. The first is that the average ticket price falls. As well as featuring standard fares published by the scheduled airlines, TI has built in specially negotiated discount fares with these carriers.

The computer chooses between the standard and negotiated fares to offer the lowest available price on the traveller's chosen route.

In theory this is exactly what a human agent offers, but experience has proved that travellers feel more compelled to select the lowest fare when they can see the difference in front of them on a screen.

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**CASE STUDY ERICSSON**

## Gentle persuasion works wonders

A small investment in personnel and systems can yield handsome savings for corporate travel budgets. Ericsson, the Swedish telecommunications group, is a case in point.

In 1990 it had one part-time travel manager in only one of its divisions. Most travellers flew business class, and the average discount achieved against full published air fares was 4.2 per cent.

By 1998 most of the

company's travellers across 130 countries had switched to economy class and the average saving against full fares was 40 per cent.

The lone part-timer, Brigitte Ringdahl, has gradually assumed full control of the group's travel arrangements, and she works with one other full-time and two part-time managers.

The essence of Ms Ringdahl's success was to establish a simple two-part policy - fly economy whenever practicable and book cheaper advance fares - and persuade travellers to adopt it.

Although companies in the US find it easy to mandate

policy to employees, issuing absolute edicts to semi-autonomous budget-holders is not within the philosophy of Ericsson or many other European businesses.

Ms Ringdahl's task has, therefore, largely been one of public relations, partly disseminated through a steering group of Ericsson employees.

She demonstrates to budget-holders how they can reduce costs by following policy and flying with airlines which have negotiated special deals with Ericsson.

She also provides them with pre-trip information which alerts managers to any traveller who has booked a flight outside corporate policy. The manager can then establish whether there is good reason for the exception - such as flying business class to east Asia before going directly to a sales presentation - or order the traveller to rebook.

Ms Ringdahl also tracks the number of policy exceptions a manager permits and lets them know if this exceeds expected levels.

She believes costs have been kept down further by using three travel agencies, engendering competition between them to find the keenest fares and provide the most efficient service.

Many companies consolidate to just one agency to ensure they gather consistent spending information for negotiating with suppliers. However, all Ericsson travellers put their travel spending through American Express corporate cards, and Ms Ringdahl finds the data provided by the card is sufficiently comprehensive.

Ericsson has had to rise to new challenges in recent months. More than \$100m of the group's travel expenditure is by employees in Sweden, where the dominant carrier, SAS, greatly reduced the ticket commission it pays to travel agents in January.

Since Ericsson's agents pass on all commission payments to the company in return for a fee plus incentives, the commission cut, which was matched by most other Scandinavian carriers, effectively increased Ericsson's travel bill by \$2m in Sweden alone.

The commissions passed on by the agents were previously sufficient to pay for the company's travel department and ensure a small annual rebate to budget-holders. However, the latest cuts have transformed the department from a profit centre into a cost centre, forcing some hasty restructuring.

Each air ticket now has a transaction fee attached to it, which is displayed on an invoice along with the commission rebate.

Fees are greater for complex itineraries and also for last-minute bookings, particularly those involving collecting the ticket at the airport.

Displaying the commission rebate also demonstrates forcefully that flying with airlines offering low commission levels is more expensive than with those offering higher rates.

Ms Ringdahl hopes the message that booking in advance and avoiding low-commission airlines saves money will not be lost on budget-holders, again without resorting to compulsion.

"It will be self-explanatory," she says. "This is what we pay the airline, this is what we are charged by the agent and this is what we get back in commission. All invoices must be signed by managers."

However, dissuading Swedish travellers from using SAS, whose frequent-flyer scheme is



Brigitte Ringdahl: her PR efforts are paying off

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particularly potent in a country with high rates of personal taxation, is not easy. Ms Ringdahl has, therefore, negotiated added inducements with other airlines.

Occasional upgrades to business class have been promised and two carriers have agreed to let Ericsson employees use their airport business class lounges even when flying economy.

"A lot of travellers have e-mailed my department to tell us how much they appreciate this," says Ms Ringdahl.

**Amon Cohen**

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PUTTING ON A SHOW by Elizabeth Robinson

# Exhibitors must consider basic questions

Clear objectives are essential for companies showing their goods - and for the serious visitor

Exhibitions range from small one-company promotions to big events in vast hangar-like structures containing many hundreds of stands. But it all adds up to an industry which in the UK is worth \$949m a year, according to figures from the Exhibition Industry Research Group.

The growth of the sector has been rapid, with double-digit increases in the number of exhibitions held in the UK over the past few years. In 1997, some 841 exhibitions were staged, according to the research group, and 53 of these were in venues covering more than 10,000 square metres.

That growth has been accompanied by technologi-

cal and marketing advances, such as website catalogues and add-on incentives. No wonder that the ever-changing industry can appear bewildering to both exhibitors and visitors.

Some companies rely so much on promoting their brand or products at exhibitions that they have set up in-house departments to organise and co-ordinate events, but specialist external agencies do exist to take on the burden.

Hugh Scrimgeour, chairman of London's Earl's Court exhibition centre, says: "It is very important to plan your participation, whether as an exhibitor or a visitor, in advance. Exhibitions tend to be a very

intense environment."

Sara Fleming, of Event Organisation, the event marketing and managing company, would prefer clients wanting to set up a stand at an exhibition to contact her at the very start of the thinking process. "The less that they've done the better," she says. In that way she seeks to fine-tune from the start what the exhibitor wants to gain from the event. For example, some companies seek an exhibition stand specifically to promote a new product, while others merely want a presence to establish, renew or cement relations.

Steve Hill, of Academy Expo, the corporate event agency, agrees. "First we ask

them why they're going to the show," he says. "Sometimes it's just because they've always done it."

Once an exhibitor and a planner work out a strategy it is best for the client to leave the planning to the specialist agency, although clients will always have the ultimate decisions, says Ms Fleming.

"Some clients can be tricky to please. The worst cases are when they try to inflict their limited expertise on the event. It's most frustrating if they're continually trying to justify themselves."

She says companies can help themselves smooth the process by assigning senior people to the task. Too often the job of liaising with an

exhibition organiser is relegated to a junior member of staff. "It's a big responsibility for them," says Ms Fleming. "We prefer to work with senior people, perhaps at boardroom level. They are used to making decisions and understand how to manage suppliers."

Mr Hill also stresses the need to be clear-minded. "We try to become more specific about what is needed at an early stage otherwise we may be committing a designer for a couple of weeks on a project that has to be dropped."

Once a stand is mapped out it is the extras that attract attention, according to Mr Scrimgeour. "Add-ons help to get to the highly

qualified visitor ahead of the crowd. Anything that you can do that gets you ahead of the average stand will have a bigger impact," he says. "This may be as simple as effective lighting or, increasingly, use of audio-visual displays."

Add-ons need not be limited to just the stand. Ms Fleming recommends considering hosting functions related to the exhibition where people can network in a more relaxed atmosphere, or setting up a VIP lounge where visitors can retreat from the frenzy.

There is also much that visitors to exhibitions can do to get the most out of the event. With some shows, such as World Travel Market in Earls Court, hosting more than 1,000 exhibitors, home-

work is essential. As some exhibitors may be "umbrella" stands for several smaller exhibitors, visitors need to study the exhibition plan carefully to maximise time as well as their own stamina.

Before the exhibition is even set up there is likely to be a wealth of information about the format and exhibitors. "The internet has been embraced by the industry," says Mr Scrimgeour. "It can be useful in terms of taking out some of the hassle for the visitor, such as pre-booking and pre-registration. Most shows will have a website that will inform people, not only about the show and the exhibitors but how to get there."

"Visitors will be pounced on by so many people," says

Ms Fleming. "I recommend they ringfence 10 or so prospects. She also points to the website as increasingly invaluable for today's exhibition visitor. An exhibition website is typically updated daily and will carry news flashes and product launches, as well as exhibitors' catalogues. Sometimes these "virtual exhibitions" are easily accessible within the exhibition venue itself, in the form of cyber-cafes.

Despite the growth of exhibitions, both in size and number, there appears to be a parallel desire to make them more user-friendly for the visitor. Ms Fleming recommends clients sponsor a coffee stall in the hall. At least that way a constant stream of thankful visitors is guaranteed.

ALTERNATIVE VENUES by Elizabeth Robinson

## Away from the bright lights...

Big cities, with their varied facilities, attract many main events, but the regions may be worth considering to save on costs

Conference delegates have traditionally swarmed to bright lights and big cities, but increasingly regional centres and even remote locations are attracting business.

It is not just the lure of the countryside. The very factors which make a capital city attractive for some conferences - urban location, large hotels and good communications - can be a turn-off for other organisers who seek out novel venues, intimate lodgings, and few distractions.

Tony Rogers, executive director of the British Association of Conference Destinations, says: "London's position is still very strong, but there is fierce competition from other regions and other city destinations."

"Residential conferences are less likely to be London because of cost. Often the quality of facilities in the regions is better and cheaper."

According to a survey of overseas conference visitors to the UK, published by the Office of National Statistics in 1997, London attracted 56 per cent of overseas delegates and 79 per cent of their spending.

Niall Mackin, American Express director of sales and head of conferences, says: "If you're not in the A-league you have to try harder to get the business - that's done on price and service."

If the bottom line for an organiser is cost, regional venues are very attractive. This is especially true for associations, where members attending conferences are paying for themselves.

"While one-day conferences may be held in the capital city, where associa-

tions often have their headquarters, residential conferences move to the regions. This keeps members around the country happier by bringing the conference closer to some while providing relatively cheap accommodation for those who do have to travel.

Even corporate conferences can be lured out of the city. Bill Richards of the Exhibition Industry Research Group, says: "The corporate market looks more for efficiency rather than location. It will go anywhere in the country. Because you are a hotel on a moor doesn't mean you won't get conferences. You will get them if you are efficient."

Last year London was knocked from the top spot for corporate conferences in the UK by central England, according to the British Association of Conference Destinations.

Big cities do not necessarily offer big venues. London's only large purpose-built conference centre, the Queen Elizabeth II, has a maximum capacity of 1,500, compared with Edinburgh's International Conference Centre and Birmingham's National Exhibition Centre which can hold up to 4,000 delegates and offer break-out facilities such as meeting rooms and exhibition space.

Cities are busy places, too. Mr Mackin pinpoints another factor in the regions' favour - availability. "Very often certain months in certain capitals are guaranteed to be full. The availability of those conference venues has become increasingly difficult in the run-up to the new millennium. Regions have taken advantage of that."



Regional interest: The Royal Pavilion at Brighton, built by the Prince Regent, later to become King George IV, is an attraction for many conference delegates visiting the Sussex town. Headline Photo

Quieter locations may also be more conducive for intensive meetings. Frank Mullen, director of the Scottish Convention Bureau, promotes venues all over Scotland, from international centres to small country house hotels and even a 40-person conference suite within the Glentworth distillery. "If someone wants to have a brain-stormer or a retreat or an incentive, in addition to having the facility requirements, Scotland is a very special place, he says."

Mr Mackin says conference organisers often have to "think outside the box". He recently organised an event in Vancouver for an international client. "The client wanted to host a multi-national event for people coming from all over the world and had suggested New York and Toronto. I felt that the most cost-effective and logistically perfect venue for this event was Vancouver."

"When we bought all the hotel accommodation there were buying five-star properties at three-star prices. It offered incredible value and we ended up with a superb

event that suited the client's criteria and more."

Increasingly conferences are combined with an incentive element. Venues in Scotland, for example, can offer fishing and falconry as well as golf. Elsewhere in Europe, Mr Mackin says Spain's sherry region has successfully promoted itself for the conference market. "Jerez de la Frontera has all those fabulous reasons for being in Spain as well as the conference facilities," he says.

The building and siting of large national conference venues is often very political. Developing nations may seek to attract international meetings, and build world-class facilities to host them. Malaysia has this year hosted trade ministers of the Asia-Pacific Economic Co-operation Forum in Kuching as well as attracting the 1998 Apec meeting to Kuala Lumpur.

Mr Richards says that despite attracting high-profile international events, such buildings do not make a return on capital and are basically a political investment. "Most governments will start off with capital

cities as where they want to attract everything and then move to the regions for catalytic growth," he says.

If a region has a particular industry or expertise it is more likely to attract international conferences. Edinburgh's medical and scientific background means it regularly plays host to specialists from around the world, while Scotland's expertise in financial services gives it a strong corporate base to attract international companies that also operate in that sector.

Ultimately the regional venues will attract organisers looking for something different, but this may make them susceptible to the cycles of fashion. Mr Mackin has seen several areas rise in popularity, only to fade to the next up-and-coming region.

"Barcelona became a hot ticket for a few years," he says. "The likes of Dublin has also been successful, but there's a cycle where conferences go." He says conference organisers in the know are currently looking at central Europe, with Prague in particular opening up.

ROADSHOWS by Ken Gofton

## Taking the goods to the people

Putting consumer products on show in, say, supermarket car parks can be an effective way of attracting attention

In the build-up to last autumn's launch of digital TV in the UK, rival broadcasters Sky and ONdigital faced a dilemma. Advertising could be counted upon to drive consumers into the stores, but before that happened there were just a few short months available in which to entice the retailers and ensure they understood the new technology.

Digital TV represents a revolution for retailers as well as viewers. In a sense it is a switch from selling hardware to software: instead of lauding the merits of one black or brown box versus another, sales staff are selling one package of pro-

grammes delivered by satellite against another transmitted terrestrially. In the event, both Sky and ONdigital chose to start their intensive retail education programmes with a series of travelling roadshows. The formats differed, with Sky travelling the country with a specially-modified articulated truck, while its rival booked into a number of hotel venues. Both tours, however, were designed to explain the technology face-to-face.

Roadshows are a well-established marketing activity, even if there are no accurate estimates of how much is spent in the area. They usu-

ally involve a mobile exhibition stand, or a seminar programme, or both.

There are two core concepts. The first is that if the customer will not come to you, you must go to the customer. The second is that face-to-face communication is extremely powerful. The current interest in one-to-one marketing and "experiencing the brand" help explain why roadshows appear to be enjoying a boom.

Where there is a mobile stand to be staffed, roadshows are frequently outsourced to specialist field marketing agencies. The Sky and ONdigital tours, for instance, were organised by their agencies, EMS and FMCG. Similarly, when the sportswear manufacturer Nike created Nike Park as a

temporary football centre in Paris to coincide with last year's World Cup, it dispatched a roadshow to French provincial cities so they would not feel ignored.

Called the Tour de Foot, and employing 12 Land-Rovers, 10 trailers, and 16 Mini cars painted in the colours of various international football sides, it was organised by agency CPM Mobile Marketing. The roadshow, in two teams, visited 70 locations over six weeks, taking a mix of interactive games, skill training and five-a-side football to a young audience.

More prosaic, but no less effective, the same company has toured UK supermarket car parks for the past two years with a sausage trailer. Freshly-fried sausages are handed out to consumers, together with moon-

ey-off incentives.

The increase in sales, which can be as high as 860 per cent in some cases, persists for some weeks after the visit. But the figure illustrates both the strengths and weaknesses of roadshows: the impact may be considerable, but only on the audience that encounters it.

Thus, supermarket car parks may be ideal for Walls, but not for every company. Whisky producer John Dewar claims to be pleased with the first-year results of a roadshow, complete with a mini distillery, it has taken to Portugal and Spain to promote its William Lawson brand. In the coming season, however, it will focus less on supermarkets, and more on the bigger audiences to be found at festivals and other outdoor events.

### EXHIBITION CALENDAR

Month	Date	Event	Venue	Contact
MARCH	Mar 1-3	Scotland hospitality industry congress	Edinburgh	+44 (0)171 237 9777
	Mar 1-3	Intl cash & treasury management	San Francisco	+44 (0)171 237 9777
	Mar 2	Raes airworthiness review of JAR 145 report	London	+44 (0)171 498 3515
	Mar 2-3	Turkish energy conference	Ankara	+44 (0)171 830 1000
	Mar 2-4	Refrigeration and air conditioning exhibition	Birmingham	+44 (0)181 277 5000
	Mar 2-3	Meetings and events exhibition	London	+44 (0)181 742 2828
	Mar 2-5	Professional electronics fair	Helsinki	+358 9 15091
	Mar 3	Freedom of information conference	London	+44 (0)171 209 1015
	Mar 3	Data protection conference	London	+44 (0)171 209 1015
	Mar 3-4	FT new media conference	London	+44 (0)171 873 3375
	Mar 3-4	Software for solicitors exhibition	Bristol	+44 (0)181 742 2828
	Mar 3-5	Computer science forum	Luxemburg	+41 318 37 00
	Mar 3-5	Nutraceutical technology exhibition	Brussels	+44 (0)171 419 0119
	Mar 3-5	Internet World Asia	Singapore	+65 3382002
	Mar 4-6	Telecoms conference	London	+44 (0)171 830 1000
	Mar 4-8	International annual private banking conference	London	+44 (0)171 453 5497
	Mar 6-10	International tourism exchange	Berlin	+49 30 30380
	Mar 6	Women and techology conference	Berlin	+44 (0)116 255 1451
	Mar 9-10	Home delivery conference	London	+44 (0)1494 678000
	Mar 9-18	International derivatives exhibition	Frankfurt	+49 89 5107 441
	Mar 9-10	Reputation management conference	London	+44 (0)181 944 8020
	Mar 9-11	Credit 99 conference exhibition	London	+44 (0)171 237 9777
	Mar 9-11	Safety and health at work exhibition	London	+44 (0)181 207 5599
	Mar 9-11	Commercial & consumer credit management	London	+44 (0)181 201 9888
	Mar 9-11	Asset management and maintenance show	Birmingham	+44 (0)1252 783111
	Mar 10	Automotive conference	Geneva	+44 (0)1252 783111
	Mar 10-11	Manufacturing exhibition	Manchester	+44 (0)1784 808990
	Mar 10-11	Software automation trade fair	Kortrijk (Belgium)	+32 56 24 11 11
	Mar 11	Pensions Management Institute conference	London	+44 (0)171 247 145
	Mar 11-12	Reviewing strategy for the euro, conference	Rome	+44 (0)171 830 1000
	Mar 11-21	International motor show	Geneva	+41 22 761 11 11
	Mar 12-14	Franchise exhibition	Brussels	+32 3 354 08 80
	Mar 12-14	Construction trade fair	Land (Finland)	+358 3 752 5800
	Mar 15-16	Marine insurance conference	London	+44 (0)171 453 5497
	Mar 15-19	Medical technology fair	Moscow	+43 1 40 28 95 418
	Mar 16-17	Capital adequacy in central & eastern Europe	Prague	+44 (0)171 237 9777
	Mar 16-18	Legal offices and services exhibition	Birmingham	+44 (0)171 873 1370
	Mar 16-18	Intl healthcare exhibition	Netherlands	+31 30 285 53 11
	Mar 16-19	International mining and exploration exhibition	Moscow	+44 (0)171 286 9720
	Mar 16-19	European business information conference	Dublin	+44 (0)171 251 5522
	Mar 17-23	Energy, safety and handling exhibition	Guernsey	+44 (0)1296 434381
	Mar 17-19	Asian call centres exhibition	Singapore	+65 2228950
	Mar 17-20	Medical congress and exhibition	Paris	+33 45 53 37 36
	Mar 18-19	Personnel and exhibition	London	+44 (0)171 237 9777
	Mar 18-19	FT pensions conference	Brussels	+44 (0)171 873 3375
	Mar 18-19	Outsourcing conference	Brussels	+44 (0)171 830 1000
	Mar 18-21	Tourism exhibition	Paris	+33 1 49 68 51 00
	Mar 18-24	Light industries, handicrafts fair	Munich	+49 89 949 55 00
	Mar 18-24	Franchising and commercial networks exhibition	Paris	+33 1 47 58 50 00
	Mar 22-23	FT world pharmaceuticals conference	London	+44 (0)171 873 3375
	Mar 22-26	Handling equipment and logistics exhibition	Paris	+44 (0)171 221 3660
	Mar 22-26	Medical equipment fair	Poznan	+48 61 69 25 92
	Mar 22-24	Strategic purchasing in euros	Amsterdam	+44 (0)181 878 3385
	Mar 22-26	AssanHuber	Singapore	+65 3329620
	Mar 22-26	Midlands manufacturing exhibition	Birmingham	+44 (0)1784 808990
	Mar 24-25	International accounting standards conference	Brussels	+44 (0)181 332 0044
	Mar 24-25	British trade travel fair	Birmingham	+44 (0)181 910 7910
	Mar 24-25	Measurement technology exhibition	Chernitz (Germany)	+49 5033 7057
	Mar 25-26	Business conference and exhibition	Eastbourne	+44 (0)171 737 9777
	Mar 26-27	Risk management exhibition	Brussels	+32 3 354 08 80
	Mar 26-27	International travel and tourism exhibition	Moscow	+44 (0)171 286 9720
	Mar 25	ISBA policy conference	London	+44 (0) 71 499 7502
	Mar 25	Money marketing conference and exhibition	Leeds	+44 (0)1425 276707
	Mar 25-26	Fund management opportunities in Italy	Milan	+44 (0)171 453 5487
	Mar 25-28	Intix conference & exhibition	Dublin	+353 1 602 4000
	Mar 28-30	Electrical retailing show	Birmingham	+44 (0)181 948 8168
	Mar 29-1	International tourism festival	St Petersburg	+7 812 1122681
APRIL	Apr 15-15	Human resource development week exhibition	London	+44 (0)181 946 9100
	Apr 13-16	Publishing and new media fair	Poznan	+48 61 69 25 92
	Apr 13-16	PATA travel mart	Singapore	+65 3382002
	Apr 14-16	InterAirport Asia	Singapore	+65 2786933
	Apr 14-18	Computer applications in archaeology	Dublin	+353 1 602 4000
	Apr 16-20	EBRD annual meeting	London	+44 (0)171 924 0974
	Apr 19-24	International industrial fair	Hannover	+44 (0)181 888 9541
	Apr 22-23	FT pharmaceuticals conference	London	+44 (0)171 873 3375
	Apr 22-25	International franchise fair	Frankfurt	+49 21 901 910
	Apr 24-25	Irish League of Credit Unions	Dublin	+353 1 490 1790
	Apr 25-28	SMMT automotive trade show	Birmingham	+44 (0)171 225 7000
	Apr 27-28	Computer systems validation in pharmaceuticals	London	+44 (0)181 878 3385
	Apr 27-29	International oceanology exhibition	Singapore	+44 (0)181 948 8168
	Apr 29-30	Tyre traders' summit	Berlin	+44 (0)1564 703993
MAY	May 5-6	Networks telecom exhibition	Copenhagen	+45 32 47 33 22
	May 10-12	Health and safety exhibition and congress	Birmingham	+44 (0)181 742 2828
	May 10-12	50 years Council of Europe conference	Innsbruck	+43 512 5936 0
	May 11-12	Computers and ships conference	London	+44 (0)171 481 8493
	May 12	Banking conference	London	+44(0)171 237 9777
	May 12-13	Business exhibition	Cardiff	+44 (0)122 281251
	May 13-16	International IT exhibition	Porto	+351 2 99 81 400
	May 14	FT motor conference	London	+44 (0)171 873 3375
	May 17-19	Newspaper technology exhibition and conference	Brighton	+44 (0)171 483 6900
	May 18-20	National accountancy exhibition	Birmingham	+44 (0)171 870 1370
	May 18-20	Internet exhibition	Berlin	+49 30 30380
	May 19-20	BSA financial services conference and exhibition	Harrogate	+44 (0)171 437 0655
	May 19-21	World fuels conference	Brussels	+44 (0)1832 355927
	May 20	Money marketing conference and exhibition	Belfast	+44 (0)1425 276707
	May 20-23	Human resources conference	Southampton	+44 (0)181 332 4222
	May 22-30	International motor show	Barcelona	+44 (0)1484 837770
	May 23-27	Sustainable energy trade fair	Amsterdam	+44 (0)171 582 7278
	May 29-29	International gas and petro exhibition	Nice	+33 1 46 65 18 34

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Questions

part 1

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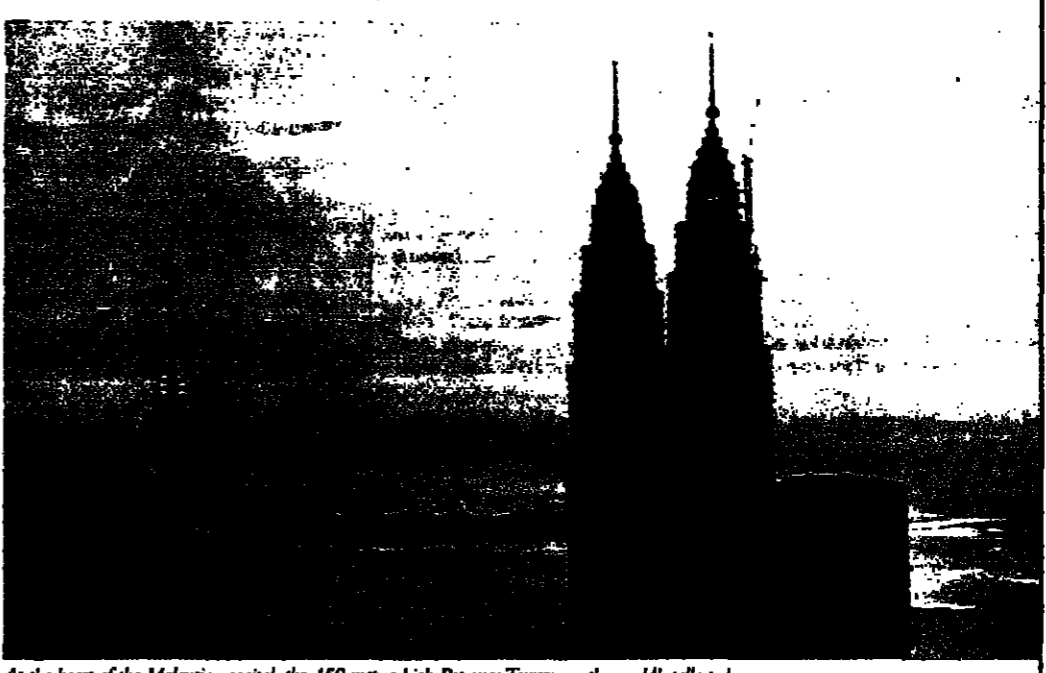
# A Nation That Thrives On Change

From exotic trading port to colonial outpost, from a fledgling nation to an Asian tiger economy dealing with all the problems an unwelcome recession brings, Malaysia appears to thrive on change and challenge.

Last September when Her Majesty Queen Elizabeth II closed the 16th Commonwealth Games in Malaysia in traditional fashion, it was hard to believe that the host country was going through one of the most turbulent times in its recent history. Universally praised as one of the most spectacular and impressive Commonwealth Games ever, with facilities, organisation and atmosphere worthy of an Olympics, the impact of the Asian financial crisis and the regional recession that has followed in its wake was left outside the superb, 100,000-capacity, newly-built main stadium in capital Kuala Lumpur. And the Malaysians welcomed the world in traditional style with a large smile. Malaysia has long been famous

time-seekers from far and wide flooded here to realise their ambitions. The fabulous architecture and elaborately-carved, stucco-fronted mansions which can be seen newly restored in the historical port cities of Penang, Kuching and Melaka are testament to the success of these early Malaysian entrepreneurs: the eclectic style a visual example of the diversity of Malaysia's ethnic and cultural mix. But it wasn't only Malaysia's ports that attracted attention. The country boasts massive resources. Blessed with a natural beauty as diverse as her people, Malaysia's terrain includes untamed and uncharted virgin tropical rainforest, gentle beaches so safe that turtles lay their eggs on their sandy slopes, as well as the highlands

flourishing export category which earned US\$2.3 billion in 1994. The emergence of Malaysia as a manufacturing nation over the past 20 years has been dramatic. Here, Malaysia's deeply-rooted entrepreneurial spirit - which had led to the establishment of thousands of small flourishing businesses - provided a natural base for industrialisation. Coupled with a sound and stable government possessing a pro-business ethos, a traditional commitment to education and training, a strong corporate culture, and a legal and banking system inherited from the former British administration, Malaysia quickly found itself on the fast-track to economic success. From 1988 to 1996, the economy grew at an average rate of 8 per cent per annum, making it one of the fastest growing in the Asia-Pacific region. (Average economic growth for the region in 1994 was 3.2 per cent.) In 1996 it ranked as the world's 17th largest trading nation with exports at US\$76.7 billion. Manufactured products accounted for almost 80 per cent of Malaysia's exports and the country was fast and expertly producing goods in industries that hadn't existed a decade earlier. In 1970, gross domestic product per head stood at US\$350. By 1995, per capita GNP had grown to US\$3,890 and Malaysia's population of around 20 million were beginning to enjoy the fruits of their labour. Home ownership was on the rise with residential estates appearing all over the peninsula. Shopping malls stocked with the latest consumer goods and international brands helped Malaysians fill their new homes - the country has one of the highest levels of home computer penetration in Asia. Malaysia was fast leaving its 'Third World' tag behind and it came as no surprise when the government announced its plan to achieve fully-developed nation status in the year 2020. Vision 2020, as the plan was dubbed, represents much more than an economic goal for Malaysia. The massive infrastructure projects of the 1990s are playing a major role in this transformation of Malaysia. The US\$2.3 billion North-South Highway which opened in 1994 meant that for the first time you could drive the length of the



At the heart of the Malaysian capital, the 450-metres high Petronas Towers are the world's tallest skyscrapers



A spectacular start to the 16th Commonwealth Games in Kuala Lumpur

for its hospitality. The three main racial groups that make up Malaysia's harmonious multicultural society, Malay, Chinese and Indian, are individually famous for knowing how to treat a guest. Put all three together and you have an irresistible combination that's summed up by the country's common greeting, 'Selamat Datang', which means 'welcome' in Malay. Multiculturalism and multi-racialism are key to Malaysia's charm, its success and its ability to adapt to change and rise to a challenge. On paper, this is a young nation. A former British colony, it became a federated constitutional monarchy with a bicameral legislature after independence in 1957. Since then Malaysians have pulled together and worked hard to create a modern country that well deserves its status as an Asian Tiger.

In reality, however, this ethnically-diverse group of southeast Asians have been living harmoniously together, and trading regionally and internationally, for centuries. Its prime geographical position, just north of the equator at a natural crossroads en route from China and the Spice Islands to Europe, made it the perfect conduit for east-west trade as far back as the 15th century. The dynamic ports of the Straits of Malacca and the north-west shore of Borneo (part of which now forms East Malaysia) were bustling commercial centres where the exotic riches of the east were traded. Entrepreneurs and for-

now famous for producing decidedly un-tropical strawberries and even tulips. These assets combined with her legendary hospitality, rich and diverse culture and fabulous food have made Malaysia a natural target for tourists - arrivals hit 7.2 million in 1996. But Malaysia's assets are more than skin deep. The country has huge resources of gas, oil, timber and minerals - the capital Kuala Lumpur was founded on the back of tin mines started by Chinese entrepreneurs in the middle of the 19th century. Extensive plantations that dominate the landscape of southern peninsular Malaysia and parts of Sarawak provide rubber, palm oil and timber. As a result, the early Malaysian economy was commodity-based with manufacturing making up less than 12 per cent of exports in 1970. Recognising that natural resources are assets that need to be conserved, Malaysia's look-ahead government launched programmes to make primary industries move upstream and downstream to create higher value exports. The Malaysian Timber Council, for example, now manufactures furniture selling in Europe and US and has created a

high, are the world's tallest skyscrapers. Housing a sophisticated mix of office space, shops, entertainment complexes and landscaped gardens as well as being home to the Malaysian Philharmonic Orchestra in a state-of-the-art concert hall, KLCC is a monumental gateway to the new commercial heart of Malaysia's capital. It's also a clear symbol of Malaysia's vision and its confidence in the future. These far-reaching and ambitious projects are providing the infrastructure Malaysia needs to achieve Vision 2020: to help it better manage and support higher value manufacturing, to diversify and compete with its neighbours and not get left behind in the age of information. Leading the way into the next millennium is the government's Multimedia Super Corridor which is regarded as the country's next engine for economic growth. Over 130 companies have already invested in Cyberjaya, a haven for multimedia companies on the outskirts of KL. With initiatives such as these, Malaysia's Prime Minister Dr Mahathir Mohamad firmly believes that the country is still on track to achieve Vision 2020, despite the impact of the Asian financial crisis which sent shock waves around the region and the world. Beginning in Thailand in 1997, a crisis of confidence saw short-term investors take flight right across the region, destabilising currencies and bringing even sound economies almost to their knees. If what caused the financial crisis aroused debate amongst the world's economists, bankers and politicians, how to get Asia back on its feet has provoked even more discussion and diverse opinions. Malaysia did what it has done for most of its history: it went its own way. Last September, Malaysia took the brave and drastic step of implementing its own formula for recovery. In brief, interest rates were reduced to boost expenditure (down to around 8 per cent from as high as 21 per cent), debt restructuring began through the setting up of a Corporate Debt Restructuring Committee and the government set about recapitalising banks. The Malaysian ringgit was pegged to the US\$ at RM3.80 to US\$1, and it was made untradeable overseas with all ringgit held outside Malaysia being repatriated by October 1. The government also declared that foreign portfolio investment must remain in the country for at least one year. The aim was to insulate and protect the economy from currency and stock-market speculators whilst giving the government and the private sector chance to restructure and recover. Some critics of Malaysia's bold move are now praising it, others are holding their fire and adopting a

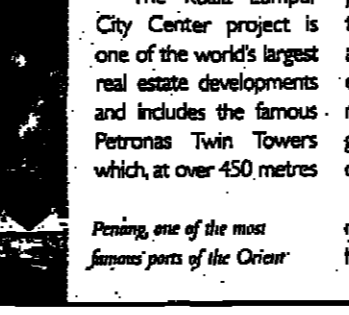
wait-and-see attitude. Clearly, like much of Asia, Malaysia's boom is over for the short term. The country is in recession - last year the economy contracted 6.3 per cent - but there are many indicators that the economy has bottomed out and things are starting to improve. Current estimates for GDP growth in 1999 range from 1.2 to 2 per cent, and unemployment is falling from a high last September. Exports increased 2 per cent in US dollar terms in October from a decline of 18 per cent in August. "We are at a very fragile stage of recovery and this has to be handled carefully," says Dr Sulaiman Mahbob, Secretariat head of the National Economic Action Council, formed to steer the country through the crisis. Here Malaysian unity will play a big role. The country has not been

rocked by the violent demonstrations and unpredictable social upheaval that still dominate life in Indonesia. In comparison, Malaysia has weathered the storm relatively unscathed. The response of athletes, spectators and the world's sporting media in their assessment of the Commonwealth Games last September is a truer indication of the state of the nation. No-one stayed away, and all who were there had nothing but praise for "The Friendly Games" and the proud Malaysians who provided a world class welcome. This year, international sports fans can look forward to World Cup Golf from November 18-21 and in October Malaysia will host its first Formula One championship on a track that has been touted as the best in the world. By then, we may well see another face of Malaysia, leaner and meaner and back on its own fast track to developed-nation status. This advertisement was created by the Malaysia Tourism Promotion Board. \* Economic and financial data supplied by the National Economic Action Council, Malaysia.



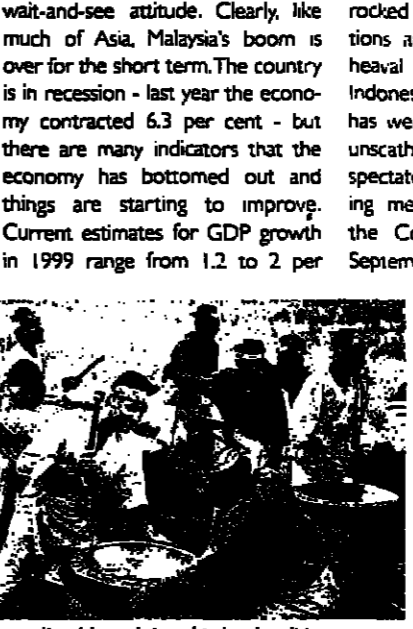
A Malaysian welcome: Selamat Datang

Malaysian peninsula - from Singapore to Thailand - on a world class freeway. It was the crucial first step to enable southeast Asians to zip around their continent by road, a fact long taken for granted in Europe and the US. The new Light Rail Transit system in KL now allows you to zip around that busy city and last year the Kuala Lumpur International Airport opened giving Malaysia a much needed world class hub facility. It is capable of handling 25 million passengers a year and a million tonnes of cargo. The Kuala Lumpur City Center project is one of the world's largest real estate developments and includes the famous Petronas Twin Towers which, at over 450 metres



Penang, one of the most famous parts of the Orient

Malaysians proudly celebrate their multicultural traditions



Malaysians proudly celebrate their multicultural traditions

CALENDAR OF EVENTS 1999	
3-14 February	Le Tour de Langkawi
4-11 July	Flora Fest
11-26 September	Malaysia Fest
April-August	World Amateur Inter-team Golf Championship
19 September	15th World Mountain Running Trophy
18-21 November	1999 World Cup Golf
2-31 October	Shopping Carnival
17 October	Malaysia World Grand Prix Formula One
30 November-5 December	Langkawi International Maritime And Aerospace Exhibition (LIMA)

Malaysia Today Part 2  
Find out how Malaysia is restructuring its economy  
National Economic Action Council initiatives  
A review of Malaysia's recession-busting tactics

# Getting around

Financial Times correspondents guide travellers around four more countries, offering the first-time visitor and experienced globetrotter alike tips to make their journey a little smoother

**AUSTRALIA** by Lisa Murray and Gwen Robinson

Sydney, with a population of nearly 4m, is Australia's largest city and capital of New South Wales, the most populous state. The Olympic Games to be held in the city in September 2000 have driven rapid growth in new hotels, restaurants and infrastructure. Canberra, home to the national parliament, bureaucracy, and national institutions, is Australia's political nerve-centre, while Perth, the fastest growing of Australia's state capitals, is home to over three-quarters of Western Australia's entire population as well as most of the country's large resources companies.

## Visas

Required by all visitors except New Zealanders. Visas are issued by Australian embassies and consulates around the world.

## Airlines

Sydney is Australia's main gateway and is serviced by more than 45 international airlines, many offering non-stop and one-stop services from around the world. The leading Australian carrier is Qantas, which operates more than 170 inbound flights weekly. Perth is also well served by international carriers, but visitors to Canberra need to fly into Melbourne or Sydney, then take a domestic connection. Domestic airlines run frequent interstate flights and service a large number of regional and rural destinations. Private charter flights can be easily arranged.

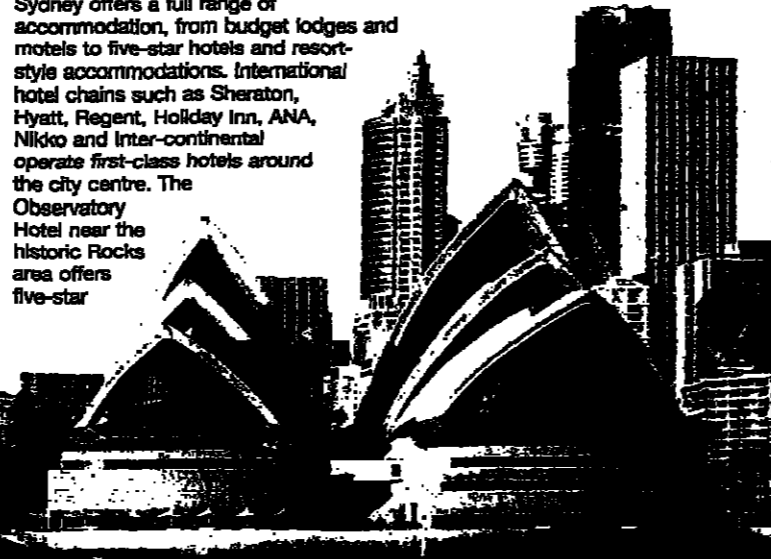
## Local transport

Sydney's extensive public transport system includes ferries and a city and suburban rail and bus system as well as inner-city monorail and light rail. There is also a comprehensive network of private services such as chauffeured limousines, rental cars, taxis and for the more adventurous, water taxis. Limousine services cost upward of A\$45 per hour around the city and from A\$450 a day for chauffeur-driven trips outside the city. Canberra has an efficient bus system, plentiful taxis, and inexpensive car rental. Perth also has cheap and

reliable public transport - including buses, trains, taxi and ferry services.

## Hotels

Sydney offers a full range of accommodation, from budget lodges and motels to five-star hotels and resort-style accommodations. International hotel chains such as Sheraton, Hyatt, Regent, Holiday Inn, ANA, Nikko and Inter-continental operate first-class hotels around the city centre. The Observatory Hotel near the historic Rocks area offers five-star



The Opera House, one of Sydney's most famous landmarks

accommodation with an "old world" touch. Rates at the top hotels range from about A\$260 a night upward for a standard room.

There is also a growing number of high-quality serviced apartments, and comfortable boutique hotels catering for business travellers. Canberra has a wide range of accommodations. Of note are the Hyatt Hotel, a 1920s art deco-style five-star establishment located in the Parliamentary triangle, and the smaller Hotel Kurrajong, set in a heritage building in a quiet leafy suburb in the Parliamentary circle. Perth's city centre hotels include the Holiday Inn Park Suites, Hyatt Regency, Parkroyal, Rydges and the Sheraton, all close to the central business district, as is the city's newest hotel, the Duxton.

## Eating out

Sydney's multicultural make-up provides the basis for a wide variety of restaurants offering a diverse range of cuisines, including the emerging "modern Australian" style which blends various influences. The Good Food Guide, a paperback guide to Sydney restaurants available in most bookstores, is a good critical guide for those wanting to explore food options, from casual bistros to top-class establishments. Around the inner-city, Chinatown offers a vast choice of Asian cuisines. Nearby is the Spanish section in Liverpool Street, while just a few blocks away is the latest restaurant mecca, Cockle Bay Wharf and Darling Harbour, a stylish, waterfront complex of restaurants and bars. Canberra's top restaurants generally observe high standards. They are dotted throughout the city, although there are concentrations around the city centre, Civic, and the Manuka area which is full of shops and cafes. For the business traveller, Boathouse by the Lake, in Barton, Atlantic and Ottoman Cuisine, in Manuka, and the Oak Room in the Hyatt Hotel have all been praised for quality and ambience. There are many restaurants in and around Perth city centre, but the Northbridge area, a short taxi ride away, has become a centre for ethnic restaurants, creative bistros and late-night cafes to suit all tastes and budgets.

**CANADA** by Scott Morrison

Canada is best known for its rugged beauty and vast expanses, but several cities have earned reputations for their cosmopolitan flair. Toronto, the country's largest city and financial centre, boasts world-class accommodation, restaurants and cultural attractions at reasonable prices for those travelling from the US, Japan or the UK. Vancouver is Canada's gateway to Asia and serves as a base from which to enjoy the country's natural beauty. It also offers visitors the enjoyment of first class accommodation and dining, though in a more relaxed setting.

## Visas

Visitors from the European Union, the US, Japan and many Commonwealth countries do not require visas.

## Airlines

Canada's main cities are well served by numerous international airlines, including British Airways and leading US carriers. Canadian Airlines offers extensive service to US and Asian destinations, while Air Canada has a strong presence on routes to the US and Europe. Cross-border traffic between Canada and US cities has increased dramatically since the two countries signed an open skies agreement several years ago. The two main Canadian carriers also offer a large schedule of domestic flights to secondary destinations.

## Local transport

Taxis are widely available in all cities, although residents of the bigger ones generally rely on safe, clean and efficient rapid transit systems. Visitors on an extended stay who want to get around with ease might consider renting a car, given that drivers are generally quite conscientious and roads and highways are well marked. Intercity buses and trains are best avoided due to the long distances between major urban areas.

## Hotels

Toronto offers a wide variety of luxury accommodations, including the venerable Royal York Hotel in the heart of the city. Other preferred destinations include the ornate King Edward Hotel and the modern Four Seasons, a favourite among visiting celebrities due to its location in the trendy Yorkville shopping district. Vancouver's top spots are the regal Hotel Vancouver and the dignified Hotel Georgia, both near the financial district, as well as the Pan Pacific, with a view of Coal Harbour and the Coast Mountains. Both cities offer a number of more moderately-priced hotels.

## Eating out

Restaurants in the main cities offer a wide variety of international cuisine. Canoe and Far Niente are favourites among Toronto's financial community, while diners are increasingly drawn to restaurants in the recently-developed entertainment district, just west of the downtown core. Dinner atop Toronto's CN Tower, with its impressive 360 degree view, is a pricey but memorable experience. Visitors to Vancouver should make time for C, regarded as the city's best seafood restaurant, and the Rain City Grill, a veritable landmark featuring west coast cuisine and a view of English Bay.

Toronto's CN Tower, with restaurant at the top

**SOUTH AFRICA** by Victor Mallet

South Africa is by far the biggest economy in sub-Saharan Africa, and boasts a sophisticated transport, telecommunications and banking infrastructure. Business habits are broadly similar to those in Europe or the US, although South African companies - after years of quasi-isolation during the apartheid era - are still catching up with international standards in everything from accounting and corporate governance to levels of service and quality control. Alongside what is essentially a first-world economy, however, are third-world problems of poverty and crime. Visitors should be aware of the dangers, but not unduly nervous.

## Visas

Citizens of most major industrialised countries do not need to obtain entry visas before arrival.

## Airlines

South Africa is well served by the big international airlines, and there are frequent direct flights to and from London by British Airways, South African Airways and Virgin. Johannesburg is the main port of entry, with Cape Town and Durban being two of the other busiest airports. South Africa is a vast country - it is 1,450km from Johannesburg to Cape Town - and most business trips within the country are by air. Domestic carriers include BA (operated by Comair), SAA, Sabena and Sun Air.

## Local transport

Hiring a car through one of the well-known international networks is quick, efficient and reasonably priced, but drivers should be constantly on the alert because standards of driving are poor. Most first-time visitors will have been regaled with horrifying tales of car-hijacking and armed robbery. Just be cautious, especially in Johannesburg and the surrounding area: lock car doors at all times (even while driving) and keep valuables, including mobile telephones, out of sight; be particularly careful at interchanges, but do not worry about the hawkers who will try to sell you everything from newspapers to coat-hangers. A phone is a useful safety tool in case you break down.

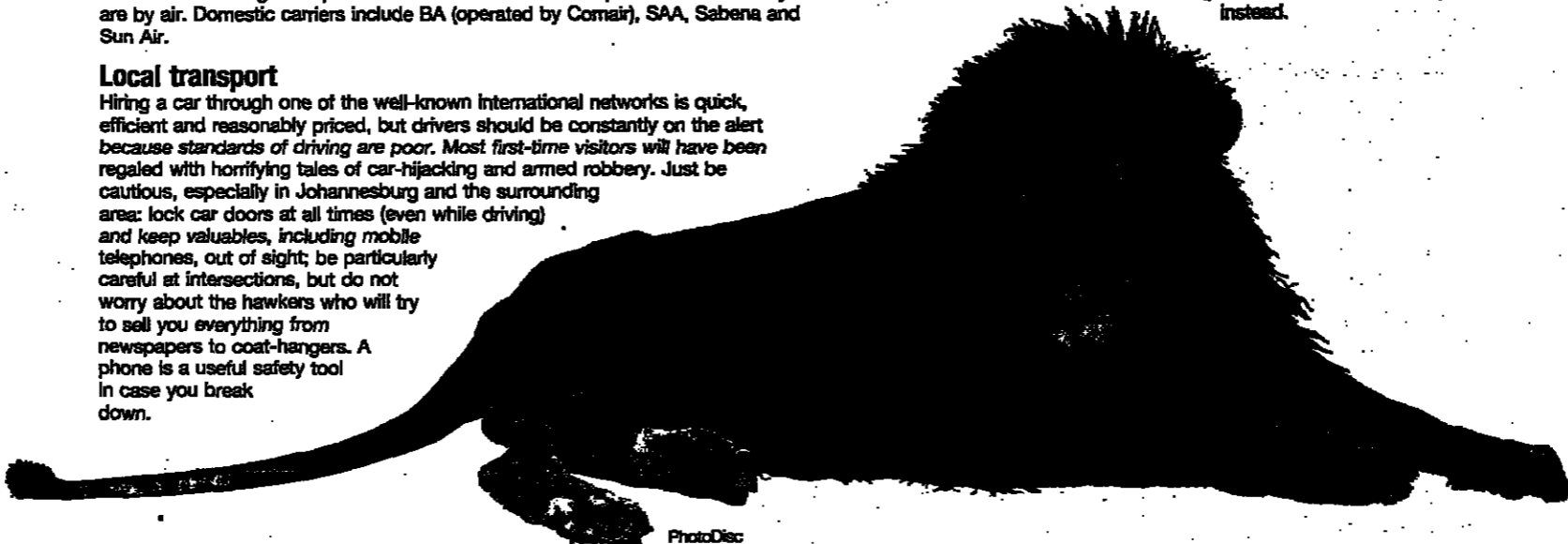
Trains, buses and minibus-taxis are also in good supply.

## Hotels

Modern, efficient establishments - including Hilton, Holiday Inn and Inter-continental - are represented in cities such as Johannesburg and Cape Town. Prices in the Cape have risen sharply in recent years because of a rapid increase in the number of tourists and a shortage of hotel rooms, but several new premises have been, or are about to be, completed.

## Eating out

The fare can be stodgy and dull in rural areas and small towns, but there are plenty of excellent restaurants in the big cities - and they will seem extraordinarily cheap to those paying in foreign currency. Try some South African specialties - ostrich, springbok, local crayfish, oysters or Cape Malay dishes such as bobotie (a spicy lamb dish not unlike shepherd's pie, but somewhat sweeter). Beware of a tendency to smother delicious, fresh ingredients in a flood of melted cheese. And do not leave the country without sampling the ever-expanding variety of Cape wines. Be cautious of the headache-inducing heaviness of some of the cabernet sauvignons reds and opt for a lighter pinot noir instead.



PhotoDisc

**NEW ZEALAND** by Terry Hall

New Zealand is revitalising its once bucolic image of a country largely populated by sheep. A roll call of the world's wealthiest businessmen have booked berths for their luxury boats to watch the America's Cup yacht races in Auckland later this year, and many are expected to take side trips to luxury resorts in New Zealand and the Pacific to be among the first in the world to watch the sun rise on the new millennium.

## Visas

Nationals of western Europe, the US and south-east Asia do not require visas for visits of up to three months.

## Airlines

Auckland is the main gateway, but Wellington, Christchurch and the alpine resort of Queenstown in South Island, which offers everything from winter skiing and year-round bungee jumping and white water rafting, also have international airports. Air New Zealand and Ansett, plus a network of smaller airlines service tourist and other centres.

## Local transport

Taxis are plentiful at airports, with a charge of around NZ\$15 to NZ\$20 to the nearest town. Shuttle buses are available at half these rates. Rental cars - motorised caravans for tourists - are a popular option. Rail buffs often choose to travel by



Jonah Lomu has played a big part in keeping the All Blacks rugby team on the world map

train and inter-island ferry... a more relaxing, if time-consuming, option and surprisingly popular with business travellers with time to spare. It can take 11 hours by train from Auckland to Wellington, compared with 50 minutes by air.

## Hotels

Most international hotel chains are represented, with those in Auckland and Wellington most focused on the business traveller. Prices are reasonable, and little difficulty should be found in finding a room. However, Auckland hotels will be under intense pressure later this year when the city hosts the Apec conference and the Americas Cup.

## Eating out

There has been something of a revolution, with chefs experimenting with new cuisine and menus focusing on top local wines. One of the most popular is the restaurant at Te Papa, the new national museum in Wellington. Vineyards on the outskirts of Auckland, Wellington, Christchurch, and Queenstown, as well as the better-known grape-growing districts of Marlborough, Nelson and Hawkes Bay offer the chance to dine and enjoy award-winning wines among the vines. Immigration, from Asia, Latin America and southern Europe has led to a host of new cafes and restaurants which offer good value.

# The promised landing.

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FT correspondents offer suggestions to travellers who have some spare time to explore their host country

# Majesty on ice, but beware hugs

Canada's frozen north has few human inhabitants, but it is rich in beauty from the animal kingdom. **Scott Morrison** reports

The beaver may rightly be Canada's national symbol, but foreign visitors searching for the quintessential Canadian wilderness experience have shown a much greater willingness to brave chilly temperatures to see the majestic polar bear trample across the frozen tundra.

Once an experience reserved for only the most hardy and intrepid of travellers, viewing polar bears has become a booming cottage industry in Canada's far north. Last year about 10,000 people braved chilly weather to make the journey to Churchill, an outpost on the western edge of Hudson's Bay, and to Wager Bay, farther to the north.

The bears' seasonal patterns are the key determinant when choosing a viewing location. Visitors will likely spot polar bears near Wager Bay, in the Northwest Territories, during mid-summer while the bears are a frequent sight around Churchill, Manitoba, in late autumn.

Every year during October and November some 300 bears congregate at Cape Churchill, some 25 kilometres north of town, to wait until Hudson's Bay freezes over. Once ice has formed, the bears, whose

average weight is 600kg, venture onto ice floes to hunt seals. But during a brief period of several weeks, visitors can observe the bears on shore and at close range from the safety of a "tundra buggy," a specially-designed all-terrain vehicle.

Polar bears are quite unpredictable, and potentially very dangerous, for they have no natural enemies and thus no fear. But the polar bears of Cape Churchill have become accustomed to the vehicles and do not act aggressively toward intruders, although they may move in for a close look.

One Churchill resident says some bears rear up on their hind legs to peer inside the tundra buggy's windows, putting passengers eye-to-eye with the "lords of the Arctic".

While polar bears are the highlight of any autumn stay in Churchill, visitors can also enjoy a number of other unique experiences. The Eskimo Museum boasts one of the finest collections of Inuit sculptures from the Hudson's Bay communities. Those curious to experience what it was like to get around the Canadian arctic before snowmobiles made their debut may want to take a ride on a sled pulled

by a team of husky dogs. Tourists in Churchill can also marvel at the Aurora Borealis, or northern lights. The bands of shimmering light glowing across the northern skies can be seen from the Tundra Domes, an indoor facility that provides comfortable views from a plexiglass seating area.

A number of tour groups organise five-day bear-watching excursions to Churchill, although individuals can make shorter and less expensive trips by booking their own transportation and accommodation. Information can be obtained through Manitoba's tourism bureau.

A typical Wager Bay excursion is longer and more expensive, simply because it is more remote and further north than Churchill. Independent travel to the region is very expensive and difficult to arrange, so guided tours are the best option.

One of the various travel groups offering package deals is Quest Nature Tours, which runs a nine-day trip to Wager Bay, a 150-km tidal inlet surrounded by rugged tundra scenery and home to the largest polar bear denning area. Organisers take guests on hikes and boat rides to seek out polar bears, bearded seals, arctic wolves,

caribou, peregrine falcons and loons.

Tour members stay at Sila Lodge, a rustic yet comfortable wooden lodge open during the brief summer season. The lodge is the only structure standing along Wager Bay, which was abandoned several decades ago when Inuit residents relocated to larger northern communities. The lodge is owned and operated by friendly Inuit, who extend hospitality, replete with stories about their culture and history.

The highlight of these tours are the boat trips along the southern shore of the bay, where polar bears like to spend summer. Boris Kotelewetz, one of the



Bears at play - best observed from close range in the safety of a "tundra buggy" PhotoDisc

lodge's owners, says it is common to spot female bears caring for their newborn cubs or hunting for seals from ice floes. Inuit guides also take guests to Boat Cove, an area rich in Inuit archaeological sites, and to see the wooden remains of a Hudson's Bay Company trading post that was abandoned in the 1950s.

While trips to Wager Bay cost as much as \$3,500, the destination offers some advantages. The region is more remote than Churchill and thus features a greater variety of wildlife. And as visitors are spirited around in boats, rather than massive tundra buggies, the experience is more genuine.

Furthermore, Wager Bay's summer season enables guests to take full advantage of the region's 24-hour sunlight.

On the other hand, the northern lights are not visible during this period and visitors might find it difficult to make time for a trip to Wager Bay.

Churchill and Wager Bay offer visitors two windows of opportunity, each with their own advantages, to see Canada's majestic "lords of the arctic". But tourism sources say that polar bear aficionados must reserve their trip early because flights and accommodation are usually booked to capacity during peak season.

# Fine for Drake, and plenty of visitors since

Victor Mallet explores the beauty and history of South Africa's Cape peninsula

There is something magnificent about standing on the Cape of Good Hope at the southern tip of Africa with the wind trying to tug your hair out by the roots. Facing south from these high cliffs you know that nothing lies between you and the Antarctic except the cold and stormy south Atlantic ocean. You might even see a whale in the waves below.

A magnificent image, but wrong on two counts. First, you are not at the southernmost point of the continent; that honour belongs to the rather low, featureless promontory of Cape Agulhas about 160km to the southeast. The second problem is that you are probably not at the Cape of Good Hope, but at the steeper and more impressive Cape Point where the lighthouse is.

Do not despair. For natural beauty and historical interest, the Cape peninsula - and particularly the nature reserve at the tip - is probably South Africa's most rewarding tourist destination for those seeking something other than a safari to look at lions and elephants. Cape Town and the adjoining peninsula are an easy weekend trip - a two-hour flight each way - for business visitors to Johannesburg.

This Cape may not be the most southerly in Africa, but it is certainly the corner, the dramatic turning point that the Portuguese explorers Bartolomeu Dias (there is a monument to him in the reserve) and Vasco da Gama were looking for when they were hunting for the sea route from Europe to India in the 15th century.

Dias, thinking of the weather, called it the Cape of Storms, and it was his public relations-minded backer, King João II of Portugal, who imposed the name Good Hope. Nearly a century later, Francis Drake immortalised the beauty of the place, calling it "a most stately thing, and the fairest cape we saw in the whole circumference of the earth".

Cape Town, overshadowed by Table Mountain, and the Cape itself are surely the most memorable places in South Africa, not just because of their craggy landscapes and many shipwrecks but also because it was here that the country's troubled and racially-divided modern era began.

It was in Cape Town that Jan van Riebeeck arrived in 1652 to establish a staging post for the Dutch East India

Company, that Cecil Rhodes dreamed of the expansion of the British empire (there is a statue of him near the city centre, pointing north, bearing his hair out by the roots. Your hinterland is there), and that the National party used its parliamentary majority to establish apartheid with a series of racial laws after 1948.

Today, however, Cape Town is as racially mixed as anywhere in the country. Visitors with only a day or two to spare should hire a car and visit the peninsula in a loop, going down one side and returning the other. Driving from Cape Town towards the False Bay side to the east you pass the magnificent Kirstenbosch botanical gardens on the slopes of Table Mountain before reaching the coast.

A winding seaside road then takes you past the quaint English atmosphere of St James, the old-fashioned fishing harbour of Kalk Bay (where seals swim among the wooden boats), the naval base at Simon's Town, and to Boulders, a beach where tourists share the sand and surf with hundreds of apparently fearless Jackass penguins.

The return route to Cape Town via the cliff-top Chapman's Peak Drive is particularly spectacular at sunset, and takes you past Hout Bay, Camps Bay and to the French Riviera-style coastal residences of Clifton on the edge of the city.

From either Boulders or Hout Bay it is a short drive to the nature reserve and the two Capes. At the height of the tourist season in the southern hemisphere summer - from December to February - the car park at Cape Point is likely to be crowded with coaches and cars. But before you reach it there are several side roads leading to beaches and walks a few hundred metres on foot and you will find yourself alone with seals, ravens and orange-breasted sunbirds in a windswept landscape of rocks, bushes and wild flowers.

You can, furthermore, get to stand on the Cape of Good Hope after all. There is a path from the main car park that takes you across the cliffs to the real thing - lower than Cape Point, but just as beautiful. On a good day, you can see dolphins surfing in the ocean swell below. And you can look out over the sea and say to yourself that you are at one of the world's most important corners.

# Hunters wear pride on their labels

Gwen Robinson and Peter Montagnon take a day out to sample the pleasures of Australia's oldest wine-growing region

For those who envisage rolling green hills, picturesque chateaux and rustic hamlets when they think of wine-tasting tours, a brief excursion to the Hunter Valley, Australia's oldest wine-growing region, can be as much of an eye opener as a palate-pleaser.

The approach to Pokolbin, the wine-growing heart of "the Hunter", as locals call it, is lined with eucalyptus or gum trees and native bushland. In the background are the craggy Brokenback mountains. You might spot a kangaroo. The region's towns and settlements - with names including Kurri Kurri, Wollombi, Abernethy and Braxton - reflect a fascinating blend of colonial convict past, the local coal mining economy, and native Australian traditions.

The diversity of influences - and visitor profiles - can also be seen in the local

architecture, from the banal to the elegant. A graceful 19th-century town hall or quaint antique shop might nestle next to a slick supermarket or gandy motel. This diversity extends to accommodation choices. From the towns, with their broad main streets, to discreet settlements well off the beaten track, visitors can choose from Aussie-style country pubs with wide balconies to charming boutique hotels, sprawling five-star resorts, rugged motels, and self-contained villas.

If wine is not your priority, there are also destinations beyond wine country, such as the mountain retreat of Barrington Tops or nearby coastal areas.

The wine enthusiast, however, is advised to stay within the main Hunter wine region. If you do not want to drive, you can join a day-tour around the numerous estates for cellar-door

tastings and end the day with a game of golf and a fine meal at one of the many top quality restaurants. Visitors with other interests, meanwhile, can go bushwalking, horse riding, ballooning or foraging for antiques in the area's many small shops.

Tourism has developed into a massive industry in the Hunter, drawing an estimated 3.5m visitors a year. Christopher Brown, president of the Hunter Valley Vineyard Association, says the "touristy" image is both an advantage and a disadvantage: serious winemakers prefer visitors who are serious about wine.

The region's popularity with local and foreign visitors stems much to its proximity to Sydney - just a two-hour drive away. "But remember, it is also one of the main wine-producing areas, and our estates, with cellar-door tastings and sales, are serious businesses," says Mr Brown.

In the 1960s and 1970s, Hunter Valley produce was at the cutting edge of Aus-

tralia's nascent wine industry. Today, the Hunter is the old lady of a booming export industry: still fiercely proud of its traditions, but acutely aware of the rise of younger competitors, including the Margaret River region in Western Australia, South Australia's new wine regions, and the Mudgee and Cowra areas in central New South Wales.

Hunter winemakers express pride at being an integral part of an outstanding Australian success story, but sound a little defensive about charges that the region has been seduced by tourism.

Lately, however, the Hunter has seen a new breed of young winemakers with fresh enthusiasm and great ideas, says Huan Hooke, a prominent Australian wine critic. "Some of them augment their range with wine from other regions, but they are primarily Hunter winemakers intent on proving it is still a great wine region," he says. "Australian wines are very much flavour of the month - there's no doubt,

we are giving the French a nudge... and the Hunter Valley can boast some unique styles," says Patrick Auld, of Southport Wines.

Some small winemakers, such as the Scarborough family at Scarborough Wines in Pokolbin, devote themselves to doing what they know they do best. The Scarboroughs produce high-quality chardonnay, and began exporting just a few years ago. Their output, about 10,000 cases a year, can barely meet demand. Like many Hunter winemakers, they run a small, quality restaurant and a cellar door operation at their winery.

In keeping with the Hunter's "good living" image, many of its restaurants are highly rated. Some of these, including Callar Restaurant at McGuigan Hunter Village and Blaxland Restaurant, operate in conjunction with cellar door operations. Other recommendations, including Chez Pok, The Hermitage, Mulligan's Brasserie, Pipette and Robert's, are at hotels and guest houses.

The Hunter region is an

easy drive from Sydney. Car rentals cost from \$60 a day. But whether it's France or Australia, mixing drinking and driving can pose problems - particularly in Australia, where drink-drive laws are strict. One option is an organised day tour or overnight package, offered by many companies at costs ranging from \$60 for transport only to comprehensive programmes with luxury accommodation, wine tastings and gourmet dining. An alternative is to hire your own car and driver for a comfortable day trip costing around \$500.

For the business traveller, Cypress Lakes Resort and Kirkton Park Country House offer sports facilities, quality restaurants and conference facilities. For a more intimate atmosphere, Pepper's Guest House, The Convent and The Carriages are period-style guest houses. There is also a wide choice of hotels, motels and B&Bs.

More information: Wine Country Visitor Information, Tel (+61 2) 4990-4477; email, info@winecountry.com.au

DUTY FREE by Roger Bray

# It may be goodbye perk, hello confusion

Campaigners are still attempting to at least delay abolition of cheap shopping for travellers within the EU

A relatively cheap bottle of single malt whisky may seem a scant reward for suffering crowded airports and flight delays and, as a tax concession, there is no logical defence for it. But when Robin Cook, the UK foreign secretary, suggested British voters were probably more exercised about the threatened abolition of duty-free than about the whole vexed question of the single European currency, he had a point.

Sales of duty- and tax-free goods in Europe are now worth \$4.5bn a year. The revenue they produce helps to hold down air and ferry fares, and the business employs more than 140,000 people. Amsterdam's Schiphol airport alone expects to lose €100m in revenue in 2000, 40 per cent of all its income from duty- and tax-free sales, and warns it may have to shed up to 400 jobs.

The likely impact on fares is less clear cut. A recent Mori survey of 118 business travellers on behalf of Carlson Wagonlit, the business travel agency chain, found that those who believed they would increase within Europe and those who felt abolition would have no effect were evenly split at 41 per cent for each camp.

If abolition goes ahead, the

short-term effect will depend on the health of economies and strength of demand for travel - but ferry companies say fares will have to rise. Passengers in the Baltic could be among those hardest hit, and companies operating routes between Britain and mainland Europe say they will have to earn around 20 per cent more from ticket prices to compensate.

The effect on scheduled airlines may be less dramatic but will depend largely on the response of airport managers.

These were not the only reasons why the recent agreement by EU ministers to review their long-standing plan to banish such sales from next July was greeted with widespread acclaim, however. Campaigners bent on reversing the decision say much more is needed to work out how duty and taxes will be applied to sales on aircraft and ferries.

The London-based Duty Free Consideration, which is dedicated to delaying or killing off - the threatened ban, rejects the thesis that national exchequers are losing revenues by allowing affluent international travellers to avoid tax on alcoholic drink and other goods.

Barry Goddard, the organisation's secretary-general, points to an estimate that

only about 20 per cent of all the money spent on EU duty- and tax-free purchases would have been spent on equivalent goods in retail shops.

But the reality is that the impact of abolition on tax revenues would be broadly neutral. In the UK, for example, it is reckoned the Treasury comes out around £18m ahead while duty-free survives - but that is small change in tax terms, and the margin for error is too narrow to be reliable.

The case against reverting duty-free is that it makes little sense to perpetuate a tax break for those who can afford to travel at the expense of those who cannot. It is weakened by the continued reluctance of EU members to harmonise taxes. Even after abolition, consumers would still be able to avoid tax in their own countries by purchasing goods at lower tariffs in other countries.

A significant number of UK business travellers clearly accept this argument. The Mori survey found 8 per cent "strongly support" abolition and a further 7 per cent "lean" to support it. That compares with 29 per cent and 14 per cent respectively in favour of retention.

Casual followers of events may be confused, for news bulletins frequently omit to



Cheap drinks are a big attraction on ferries AP

point out that the axe is poised only over duty- and tax-free sales to passengers travelling between EU countries: they will still be available to travellers heading to or from other destinations.

UK operators would be easily the biggest losers, saying goodbye to sales worth around \$1.5bn. Finland and Denmark would be next, losing \$228m and \$548m respectively.

Perhaps surprisingly, alcoholic drink does not invariably make up the lion's share of sales. In Finland (44.9 per cent) and Sweden (48.9 per cent) it is far and away the biggest earner, but in Germany, Austria, Belgium, Greece, Italy, Luxembourg, the Netherlands, Spain and Portugal, travellers spend more on fragrances and cosmetics.

A key weapon in the fight against abolition has been the prospect of confusion when airlines and other operators start adding duty and tax to prices previously free of them.

The European Commission has ruled that all goods will be subject to value added tax

at the rate imposed by the country where they are loaded on to the ship or aircraft. But if they are subsequently sold in another country's waters or airspace they are subject to that country's tax - and the operator has to reclaim the amount paid at the point of loading.

But the amount of duty payable will be that imposed by the country in whose airspace or waters the goods are sold. Theoretically, therefore, total prices could change four times during a return ferry crossing between the UK and France - and any number of times on a long-haul flight across several EU countries.

At their recent Vienna summit, EU heads of government asked the Commission to come up with a new proposal by the end of March which could allow sufficient time to devise workable alternatives. Noting that Britain has suggested a five-year stay of execution so that workable alternatives can be put in place, Mr Goddard says: "We need at least three years."

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THE BUSINESS OF TRAVEL: Travellers' tales

FT correspondents hear some more tips, yarns and warnings from two men who spend much of their lives travelling the world

# There are times when it's best to say 'no'

**Sarah Murray meets an IT consultant who is well versed in the art of avoiding trouble on his worldwide treks**

As someone who often finds himself in countries on the US State Department's "no-go" list, David Drinkard, was only a little perturbed when, on a trip to Nigeria, a loud knock sounded on the door of his Lagos hotel room.

"I looked through the peep-hole and all I saw was shoulders," he says. "This was a big guy... if he'd wanted to, he could have easily knocked down the door."

Despite the man's claim that he was a driver, ready to take him to the airport, Mr Drinkard left his door firmly locked. He was, after all, in a country beset by violent crime where both locals and foreigners have been known to disappear without trace. And he had not booked a driver.

He told the man he had the wrong room and explained that he would call hotel security to check the

handle difficult situations." Having a local business partner can help. "When I went to Lagos the rules were explained to me very carefully by my local partner," he says. "He told me never to leave the airport with anyone unless they present a card from the company."

Another rule - one of Mr Drinkard's own - is to have letters of invitation, details of his local contacts and embassy phone numbers either memorised or in a jacket pocket, so if luggage goes missing or no one turns up to meet him at the airport he can get hold of his local partners.

"Again, common sense prevails. Having names and phone numbers with you at all times is important, and don't have more money on you than you can afford to lose."

For someone who has lived out of a suitcase for several years, maintaining health is important. "It's one aspect of overseas travel you really must address if you're

going outside Europe and North America," Mr Drinkard says.

He is certainly not neglecting his duties in this respect. "My doctor in the US looked at my immunisation card and said I was better inoculated than most servicemen," he says. "I only have to hear the names of the diseases and I want the doctor to jab me at once." He cites Vietnam as an example. "Japanese encephalitis, spinal meningitis, polio, typhoid - these names don't sound good."

Describing himself as a "walking pharmacy", Mr Drinkard explains that as well as keeping inoculations up to date and travelling with a supply of emergency medicines, he takes a number of other precautions. "I always drink bottled water. In some countries they fake the seal on the cap, so I'm always careful about that. I don't put ice in any drinks and I'd rather have a cola or a beer than a soft drink in a dirty glass.



Help that is appreciated: David Drinkard finds his way around Hanoi with some directions from the local police

The best way to stay healthy is to stay clean."

But while Mr Drinkard can be a cautious traveller, he throws some of this caution to the wind when it comes to getting to know the country in which he's doing business. A gregarious nature, a desire to learn about the world and bags of energy means he immerses himself into the local culture wherever he goes.

Football is one way he does this. "When I went to a

Boca Juniors match in Buenos Aires, the locals I was training couldn't believe it," he says. "I mean, if Boca Juniors played in New York they'd be playing in the Bronx so no one wanted to come with me. I was quite an oddity among my seat mates. But it was brilliant - no scoreboards, no music, no cheerleaders. It was pure football."

"I left when Boca Juniors lost, in case the crowd blamed the gringo. But when

the next day I told my trainees I'd been to the match, they thought I was the greatest."

It is these kind of experiences that sustain Mr Drinkard through a gruelling schedule which takes him to some 18 countries or more a year. "For me, business travel is a chance to learn and that's why I do it," he says. "And if I look on a plane as if I'm living there - even if it's only for a couple of weeks - I

don't miss as many things from home."

But if football matches help keep him globe-trotting, so do a couple of items which, along with a Swiss Army knife, tablets and syringes, he deems essential: "I always travel with my cigar cutter, a personal CD player and a few CDs. Many a rough day has been gotten through with some good music, a Cuban cigar and a glass of whisky consumed on a hotel balcony."

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Martin Sexton: 'A very privileged life'

## I get thrills without all those frills

**Gillian Upton catches up with a busy globetrotter who finds time to relax on trips to some of his favourite cities**

The one thing Martin Sexton does not complain about is travelling. "I love it," he says. "It's a very privileged life. I'm a geography graduate, and I haven't got it out of my system."

Mr Sexton's schedule takes him once or twice a week from the UK into continental Europe and once a month to the US in his role as vice-president corporate communications for Unisys, the US-based information technology-based solutions company.

He is currently travelling more than usual as a member of the nine-strong taskforce managing a company repositioning and rebranding exercise. Trips to company headquarters in Philadelphia, and also to New York, are now more commonplace. And not for him the luxury of a business class seat; all his travel is at the back of the aircraft.

British Airways is his preferred airline to Philadelphia because of its direct service... but in using BA he is being allowed to break with company policy. Unisys, he says, believes the airline's prices are not competitive.

Within the US he flies with United, which he likes for its seat-back TV in Boeing 787s and good legroom. Within Europe he flies British Midland when possible.

Mr Sexton follows a strict routine on long-haul flights, and this may help him escape the horrors of jetlag. He eschews alcoholic drinks and food, changes his watch to local time as soon as he boards the aircraft, and spends his time catching up on reading or writing reports.

"I turn up at check-in at the last minute, take only carry-on luggage, and work," he says. "On the way back I've got it down to a fine art. I get stuck into a window seat in economy class, put on some eyeshades, pull the blanket around my neck and usually manage to wake up when we're about to descend into London."

"The [extra] space in business class is a big 'con' trick," says Mr Sexton. "Once you're asleep you don't need space." But he does admit that he's lucky in being able to sleep easily at 30,000ft.

Company travel policy dictates choice of hotels. Mr Sexton's continental European trips are for meetings with staff, local press, country managers and reviews of advertising agencies, so hotels are chosen for proximity to local Unisys offices.

He is pragmatic about staying in hotels: "They're somewhere to put your head down. Regular travellers don't get taken in by all the frills."

Mr Sexton's real enthusiasm for travel is the cities he is able to visit. In Europe his favourite city is Vienna. "I spent three years there, and it's the most wonderful city," he says. "It has everything: a good climate with distinct seasons, cold and crisp in winter and warm and sunny in summer. And it's the centre of Europe so you can drive to a ski resort at the weekend or to Prague, Budapest, Salzburg or Warsaw. I'm deeply in love with the city."

When travelling he keeps in touch with his office by mobile phone. "Laptop PCs are too heavy to carry," he says. He keeps expenses down by working out of Unisys offices rather than using hotel business centres or telephones. Despite these efforts, however, the downside to life on the road for him is returning to the office. "Then you face the real mail, having dealt with only e-mail while you're away."

Mr Sexton feels his travelling life would be improved immeasurably, if airlines could tackle the problem of long waits for luggage.

He would also like to see more airlines introduce a full-fare economy class cabin section so he did not have to sit next to backpackers. Virgin Atlantic has been operating a special cabin for full-fare economy class passengers for six years. Called Premium Economy, it offers free drinks, extra legroom and free newspapers and magazines.

"I don't plan ahead beyond a couple of weeks so I can't get Apex fares, but if I've paid full fare economy then I should be treated differently, perhaps with a little bit of extra legroom," he says.

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